

JOINT BUDGET COMMITTEE



STAFF BUDGET BRIEFING FY 2019-20

DEPARTMENT OF REVENUE

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STAFF RECOMMENDATION DOES NOT REPRESENT COMMITTEE DECISION

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DEPARTMENT OF REVENUE

DEPARTMENT OVERVIEW

The Department of Revenue regulates, enforces, and administers the state's tax laws. The Department also issues and maintains records related to drivers licenses, vehicle emission testing stations, registration and titling of motor vehicles, limited stakes gaming, liquor and tobacco retailers, horse racing and pari-mutuel betting, the automobile sales industry, and medical and recreational marijuana retailers, growing facilities, and manufacturing facilities. In addition, the Department operates the State Lottery, including state and multi-state games. The Department is divided into six divisions or business groups, four of which provide direct services to the citizens of the State, and two that provide support for the four direct-service providers.

THE EXECUTIVE DIRECTOR'S OFFICE provides overall leadership and administration for the Department, including the central budget office, accounting and financial services, internal audit, human resources administration, and includes the Office of Research and Analysis, a citizens' advocate, and the Hearings Division.

THE INFORMATION TECHNOLOGY DIVISION is responsible for the maintenance and support of the Department's information technology systems that are not maintained and supported by the Governor's Office of Information Technology.

THE TAXATION BUSINESS GROUP

- Is responsible for the collection, administration, and enforcement of individual and corporate income taxes, sales and use taxes, gasoline and special fuel taxes, and severance taxes, as well as all other taxes collected by the state;
- Provides assistance and information to taxpayers about compliance with Colorado's tax laws;
- Attempts to resolve taxpayer disputes before they reach the court system;
- Administers the cigarette tax rebate and the Amendment 35 distribution of cigarette taxes to the cities and counties;
- Administers the Old Age Heat and Fuel and Property Tax Rebate Program; and
- Administers the Commercial Vehicle Enterprise Sales Tax Refund.

THE DIVISION OF MOTOR VEHICLES

- Is responsible for enforcement and administration of the laws governing driver licensing and vehicle registration;
- Licenses drivers, maintains records of licensed drivers, and applies administrative sanctions against drivers who violate traffic laws, including for drunk driving and for excessive points;
- Oversees the vehicle emissions testing stations (including mobile testing stations);
- Registers and titles motor vehicles; and
- Administers the motor vehicle insurance identification database to prevent the registration of vehicles that are not insured.

THE ENFORCEMENT BUSINESS GROUP

- Regulates and enforces laws related to the limited stakes gaming industry in three historic mining towns;
- Enforces laws regarding liquor and tobacco retailers, including laws against selling those products to minors, and licenses retailers and special events where alcohol is served;
- Regulates horse racing (dog racing is currently inactive) and pari-mutuel betting (including off-track betting);
- Regulates retailers and sales agents in the motor vehicle sales industry; and
- Regulates medical and recreational marijuana dispensaries, cultivation, and manufacturing facilities.

THE STATE LOTTERY DIVISION

Operates the State Lottery, which sells scratch ticket games and tickets for jackpot games (e.g. Powerball, Lotto, Cash 5, Pick 3, and Mega Millions). The net proceeds of the Lottery benefit the following funds and programs:

- The Conservation Trust Fund;
- Colorado Division of Parks and Outdoors Recreation;
- Great Outdoors Colorado; and
- The public schools capital construction fund.

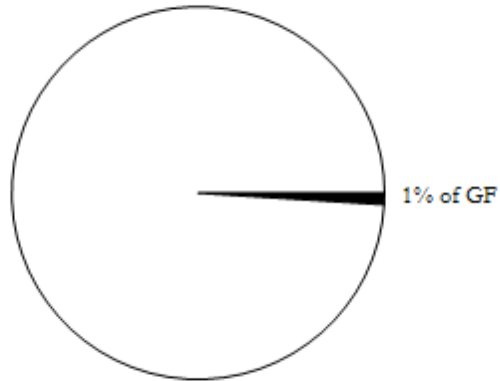
DEPARTMENT BUDGET: RECENT APPROPRIATIONS

FUNDING SOURCE	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20 *
General Fund	\$100,886,490	\$108,468,830	\$113,271,850	\$116,124,615
Cash Funds	233,790,126	241,710,307	249,529,454	270,841,658
Reappropriated Funds	6,522,588	6,245,246	6,381,910	6,148,660
Federal Funds	824,388	824,388	824,388	1,031,991
TOTAL FUNDS	\$342,023,592	\$357,248,771	\$370,007,602	\$394,146,924
Full Time Equiv. Staff	1,430.4	1,437.2	1,472.0	1,499.0

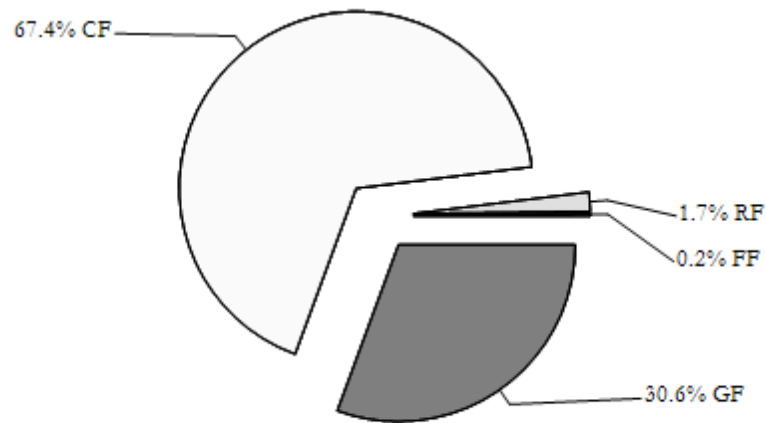
*Requested appropriation.

DEPARTMENT BUDGET: GRAPHIC OVERVIEW

**Department's Share of Statewide
General Fund**

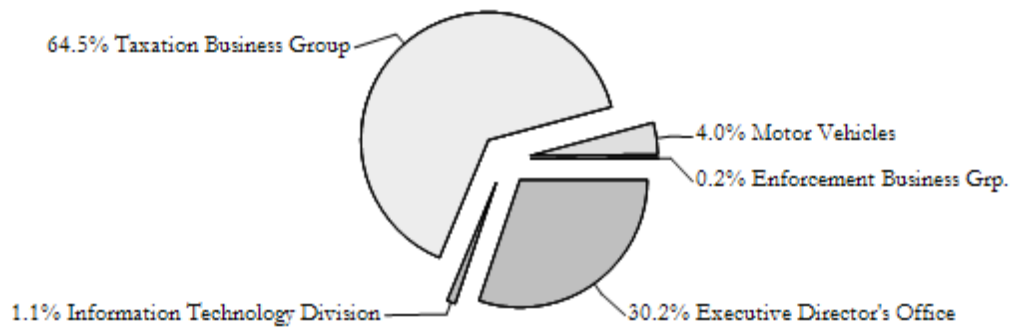


Department Funding Sources

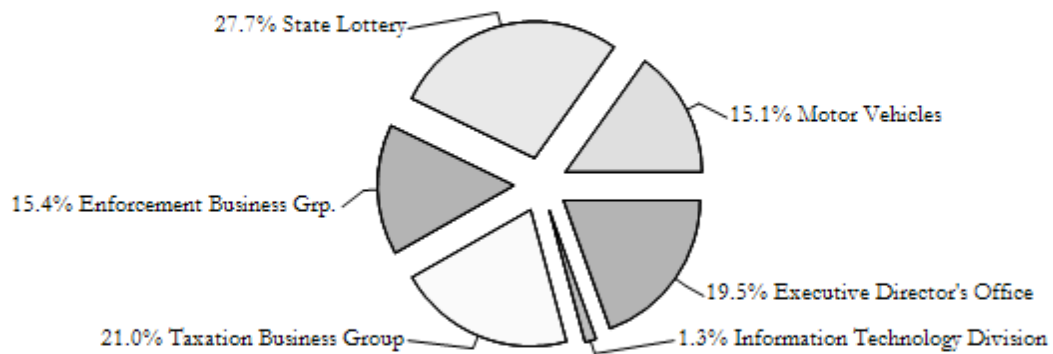


All charts are based on the FY 2018-19 appropriation.

Distribution of General Fund by Division



Distribution of Total Funds by Division



All charts are based on the FY 2018-19 appropriation.

GENERAL FACTORS DRIVING THE BUDGET

The Department's funding for FY 2018-19 consists of 30.5 percent General Fund, 67.5 percent cash funds, 1.7 percent reappropriated funds, and 0.2 percent federal funds. The Department's primary budget drivers are the State's tax structure, population, and business activity in regulated industries. In recent years, mineral severance activity and legislative changes related to identification document requirements have also increased demands on Department staff and systems.

HEARINGS DIVISION

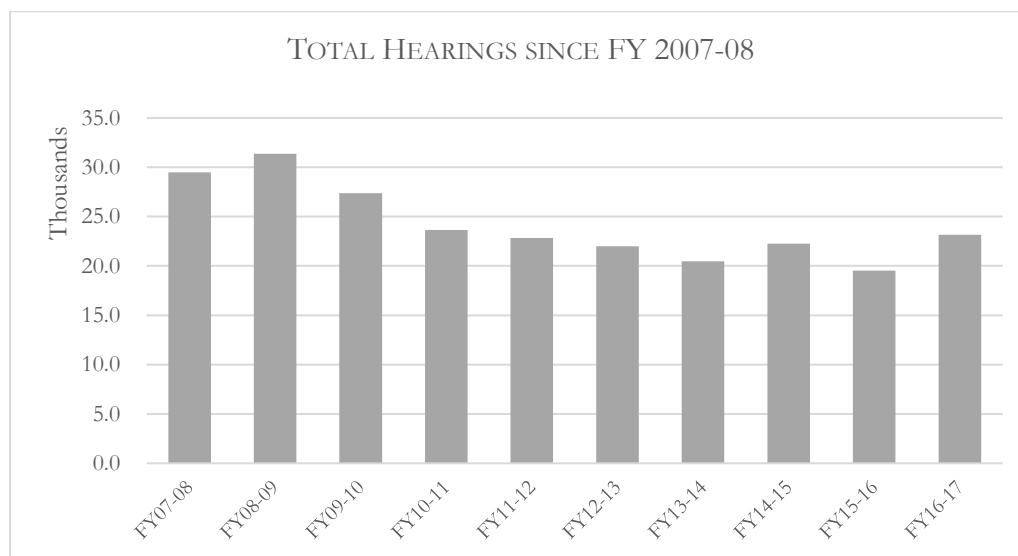
The Hearings Division conducts administrative hearings regarding various licenses issued by the Department, including driver's licenses, liquor licenses, horse and dog racing licenses, and motor vehicle dealer's licenses. Prior to FY 2016-17, the Hearings Division was located in the Enforcement Business group in the budget although it operated within the Executive Director's Office. Beginning in FY 2016-17 the Hearings Division was relocated to the Executive Director's Office as a subdivision. The following table outlines the number of hearings annually since FY 2010-11.

NUMBER OF HEARINGS							
	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Total motor vehicle related hearings ¹	23,526	22,710	21,867	20,390	22,188	19,424	23,114
Other hearings ²	125	119	132	95	78	99	55
Total hearings	23,651	22,829	21,999	20,485	22,266	19,523	23,169

¹ Includes hearings related to excessive points, express consent, driving under the influence convictions, habitual traffic offender, insurance related restraints, vehicular assault/homicide, controlled substance crimes, underage drinking and driving, and ignition interlock cases.

² Includes hearings related to liquor, racing, tax, tobacco, vehicle emissions, commercial driver's licenses and 3rd party testers, automobile salespersons, gaming, and marijuana.

The following chart reflects the number of hearings annually since FY 2007-08.



TAXATION BUSINESS GROUP

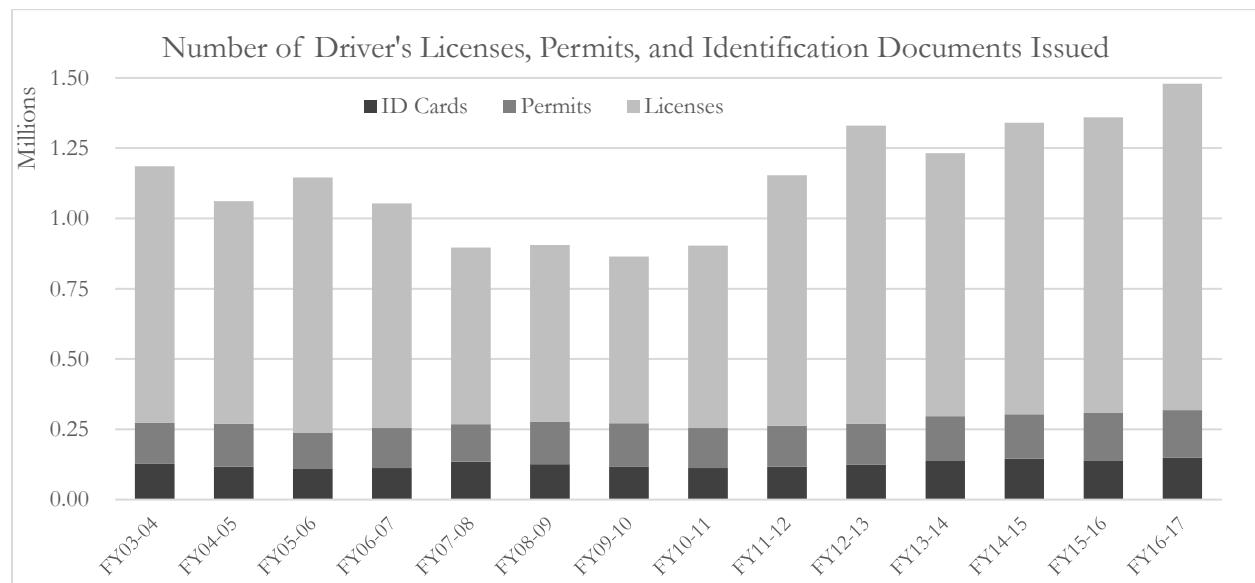
The complexity of Colorado's tax structure affects the resources required by the Taxation Business Group and Information Technology Division. In addition to collecting State taxes, the Department collects local taxes for most counties, cities, and special districts in Colorado, and tracks and distributes the collections monthly to the local governments. Local sales taxes collected include: city sales tax, county lodging tax, county transit sales tax, special district taxes, and transportation authority tax. In FY 2016-17, the most recent year with finalized and audited data, \$7.3 billion dollars in corporate and individual incomes taxes and \$210.4 million in general and special sales taxes on marijuana were collected.

DIVISION OF MOTOR VEHICLES

The Division of Motor Vehicles:

- issues driver's licenses and identification cards;
- maintains driver records and enforces administrative sanctions, suspensions, and reinstatements of driver's licenses;
- regulates commercial driving schools;
- oversees the State's vehicle emissions program;
- provides support for the Driver License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) system (formerly the Statewide Vehicle Titling and Registration System or CSTARS);
- oversees the motorist insurance identification database program; and
- administers the Ignition Interlock Subsidy Program.

The Division operates 36 offices throughout the state and the number of identity documents issued yearly is one of the primary factors driving the budget of the Division of Motor Vehicles. The following chart reflects the number of documents issued since FY 2003-04.



Recent changes in state and federal law have increased transaction times for driver's licenses and ID cards. For example, the Department has instituted new policies and procedures to ensure that those documents are secure and verifiable by utilizing databases to confirm residency and legal status.

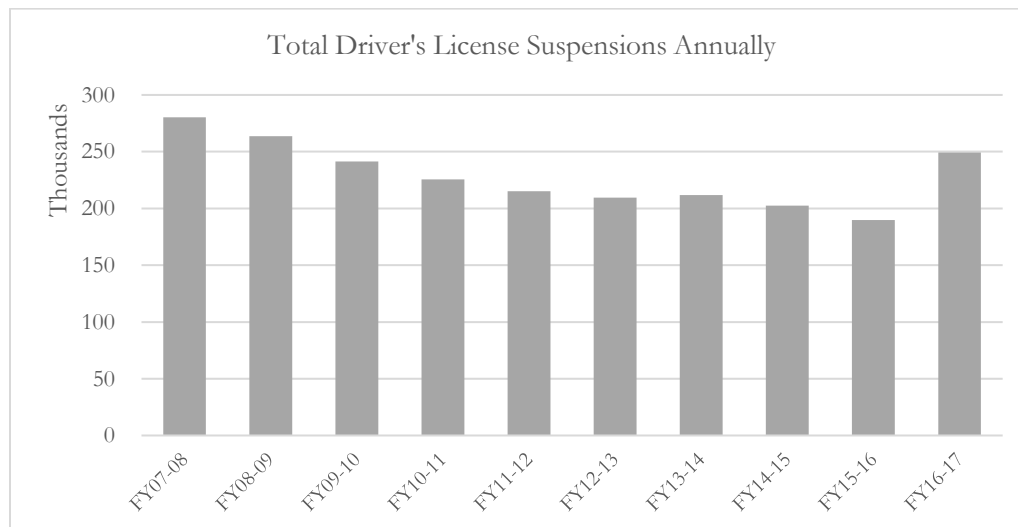
In addition to issuing driver's licenses, the Driver Services and Vehicle Services sections are responsible for:

- managing driver's licensing records;
- verifying documents presented for identification, including proof of the applicant's legal presence in the United States;
- identifying and administering administrative sanctions, including all restraints for alcohol related driving offenses;
- investigating fraud related to driver's licenses and identification cards;
- providing support and coordination for the motor vehicle registration process;
- administering the Colorado Road and Community Safety (S.B. 13-251) identification program; and
- supervising license plate ordering and distribution.

The following table outlines the number and type of driver's license suspensions since FY 2011-12.

DRIVER'S LICENSE SUSPENSIONS						
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Excessive points	9,907	8,947	7,380	7,811	5,534	7,010
Adult impaired driving arrests	26,062	26,859	24,592	23,581	19,871	18,254
License restricted by other state	3,953	3,675	4,071	4,409	3,638	6,483
DUI convictions	4,318	4,125	3,944	3,463	3,142	6,995
Habitual traffic offender	3,279	3,265	2,887	2,567	2,437	2,540
Accident without insurance	1,876	1,258	1,441	1,552	1,595	4,480
Driving without insurance	26,075	24,417	21,050	18,448	17,490	14,136
Vehicle assault/homicide	195	156	153	211	189	197
Controlled substance convictions	4	1	0	0	0	0
Underage drinking/driving	1,693	1,468	1,373	1,178	993	829
Underage buy/possess alcohol	1,149	846	613	422	385	289
Child support arrears	17,834	18,201	18,774	18,645	17,426	34,505
Unpaid ticket/failure to appear in court	81,085	78,868	77,519	76,662	74,128	86,926
Other	37,678	37,573	48,129	43,503	42,922	66,513
Total	215,108	209,659	211,926	202,452	189,750	249,157

The following table reflects total driver's license suspensions annually since FY 2007-08.

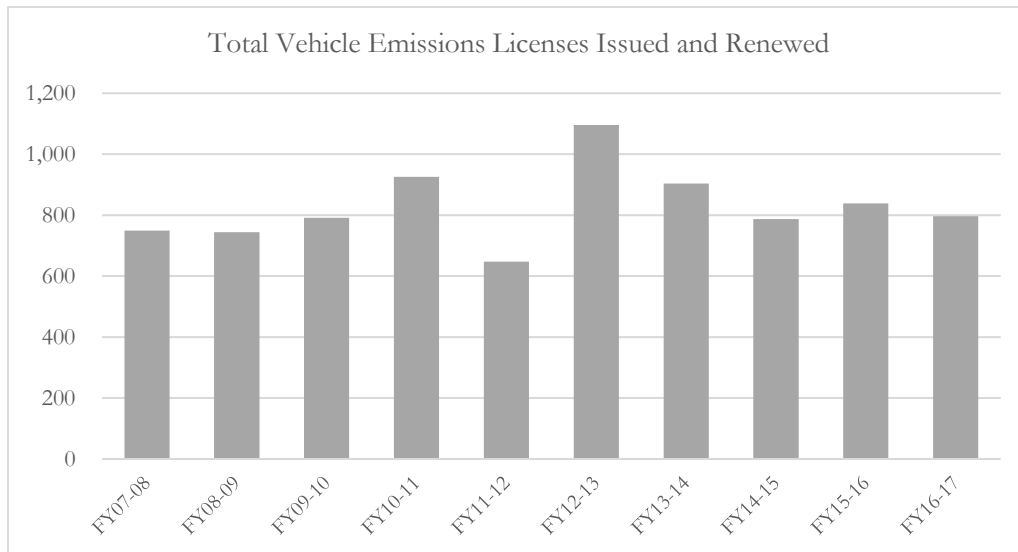


VEHICLE EMISSIONS PROGRAM

The Vehicle Emissions Program licenses, regulates, and inspects vehicle emissions testing site operators, inspectors, and mechanics; conducts inspections of vehicle emissions testing facilities to ensure compliance with statutory requirements; and validates inspector and mechanic performance standards. The following table outlines licenses issued and renewed since FY 2010-11.

VEHICLE EMISSIONS LICENSING							
	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Stations Licensed	83	75	87	87	81	82	81
Stations Renewed	64	67	81	51	49	53	66
Mechanics Licensed	579	355	683	593	496	480	479
Mechanics Renewed	200	151	245	173	161	224	171
Total	926	648	1,096	904	787	839	797

The following chart reflects total vehicle emissions licenses issued and renewed annually since FY 2007-08.

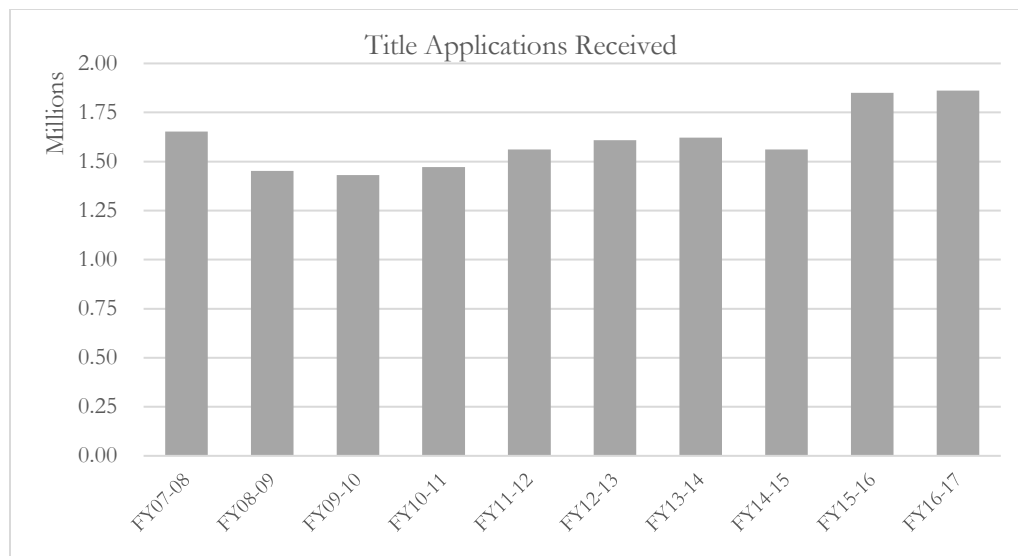


TITLES PROGRAM

The Titles Program is responsible for the issuance of legal, negotiable certificates of title to protect the public when purchasing motor vehicles. Program staff review all high-risk title applications to verify that the assignment of ownership is proper. The following table outlines the number of title applications received annually since FY 2010-11.

TITLE APPLICATIONS RECEIVED							
	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Title Applications Received	1,471,503	1,561,184	1,608,557	1,621,277	1,561,035	1,850,487	1,860,984

The following chart reflects title applications received annually since FY 2007-08.



ENFORCEMENT BUSINESS GROUP

The Enforcement Business Group regulates the liquor, tobacco, medical and retail marijuana, racing, gambling (except games of chance operated for charity, which are regulated by the Secretary of State), and automobile sales industries. The Limited Gaming Control Commission has authority over the Limited Gaming Division budget.

LIMITED GAMING DIVISION

The Limited Gaming Division licenses and regulates the limited gaming industry, including gaming devices, facilities, personnel, and activities. The Division also enforces the laws contained in the Limited Gaming Act, as well as the rules and regulations promulgated by the Colorado Limited Gaming Control Commission (Commission). The Commission has constitutional authority to allocate money to the Division. Money remains in the Limited Gaming Fund after the payment of the Division's expenses and distributions according to the Constitution as follows:

- 28 percent to the State Historical Society;
- 12 percent to the gaming counties (Gilpin and Teller) in amounts proportional to gaming revenues collected in each county;
- 10 percent to the gaming cities (Black Hawk, Central City, and Cripple Creek) in amounts proportional to gaming revenues collected in each city; and
- 50 percent to the General Fund or such other uses or funds as the General Assembly may provide.

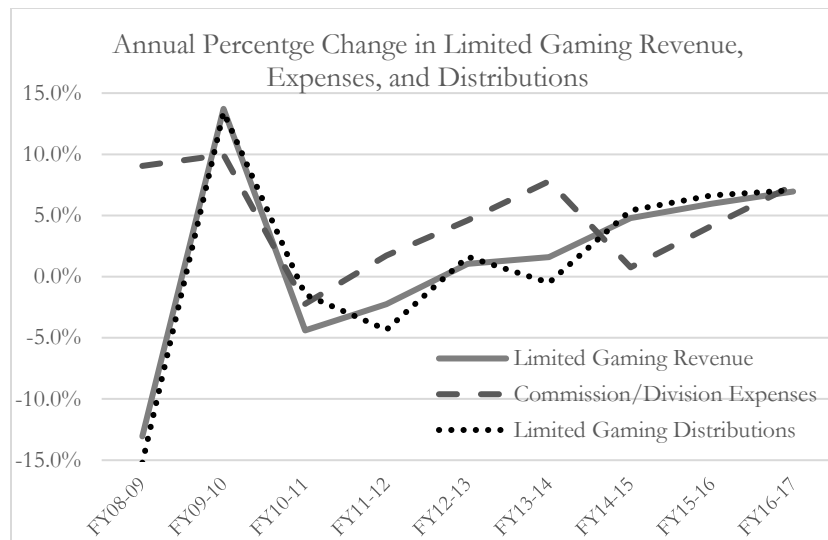
Amendment 50, approved by voter in 2008, expanded limited gaming to include higher limits on bets, extended hours, and new games. The proceeds of expanded gaming, after expenses, are distributed as follows:

- 10 percent to limited gaming cities;
- 12 percent to limited gaming counties; and
- 78 percent to the State's community colleges.

State limited gaming revenues, expenses, and distributions are outlined in the following table.

Limited Gaming Revenue, Expenses, and Distributions					
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Limited Gaming Revenue	\$104,644,974	\$106,322,700	\$111,421,159	\$118,073,006	\$119,169,899
Commission/Division Expenses	(12,872,721)	(13,877,185)	(13,981,725)	(14,561,705)	(15,022,463)
Expenses percent of revenue	12.3%	13.1%	12.5%	12.3%	12.6%
Total Limited Gaming Distributions	(\$92,686,816)	(\$92,219,372)	(\$97,218,342)	(\$103,684,917)	(\$104,082,249)
Distributions percent of revenue	88.6%	86.7%	87.3%	87.8%	87.3%
Amendment 50 Distributions					
Limited Gaming Counties (12 percent)	\$993,906	\$1,005,480	\$1,185,549	\$1,506,898	\$1,610,384
Limited Gaming Cities (10 percent)	828,255	837,900	987,059	1,255,749	1,341,986
Community College System (78 percent)	6,460,388	6,535,622	7,702,884	9,794,840	10,467,496
Total distributions - Amendment 50	\$8,282,549	\$8,379,002	\$9,875,492	\$12,557,487	\$13,419,866
State Share Distributions (50 percent):					
State General Fund	\$12,102,134	\$11,820,185	\$13,571,425	\$15,463,715	\$15,231,191
Local Government Gaming Impact Fund	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Tourism Promotion Fund	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Film Incentives Cash Fund	500,000	500,000	500,000	500,000	500,000
Bioscience Discovery Evaluation Grant Program	5,500,000	5,500,000	n/a	n/a	n/a
Advanced Industries Acceleration Cash Fund	n/a	n/a	5,500,000	5,500,000	5,500,000
Innovative Higher Ed Research Fund	2,100,000	2,100,000	2,100,000	2,100,000	2,100,000
Creative Industries Cash Fund	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total distributions - State Share	\$42,202,134	\$41,920,185	\$43,671,425	\$45,563,715	\$45,331,191
State Historical Fund distribution (28 percent)	\$23,633,195	\$23,475,304	\$24,455,998	\$25,515,681	\$25,385,467
Limited Gaming Counties (12 percent)					
Gilpin County	\$8,364,125	\$8,373,641	\$8,780,053	\$9,162,681	\$9,095,250
Teller County	1,764,387	1,687,203	1,701,089	1,772,611	1,784,236
Total distributions - Counties	\$10,128,512	\$10,060,844	\$10,481,142	\$10,935,292	\$10,879,486
Limited Gaming Cities (10 percent)					
City of Black Hawk	\$6,174,172	\$6,244,431	\$6,592,639	\$6,864,629	\$6,792,426
Central City	795,932	733,603	724,072	770,938	786,949
City of Cripple Creek	1,470,322	1,406,003	1,417,574	1,477,176	1,486,863
Total distributions - Cities	\$8,440,426	\$8,384,037	\$8,734,285	\$9,112,743	\$9,066,238

The following chart reflects the annual percentage change in limited gaming revenue, expenses, and total distributions since FY 2008-09.



The following table outlines annual changes in revenue, expenses, and distributions since FY 2009-10.

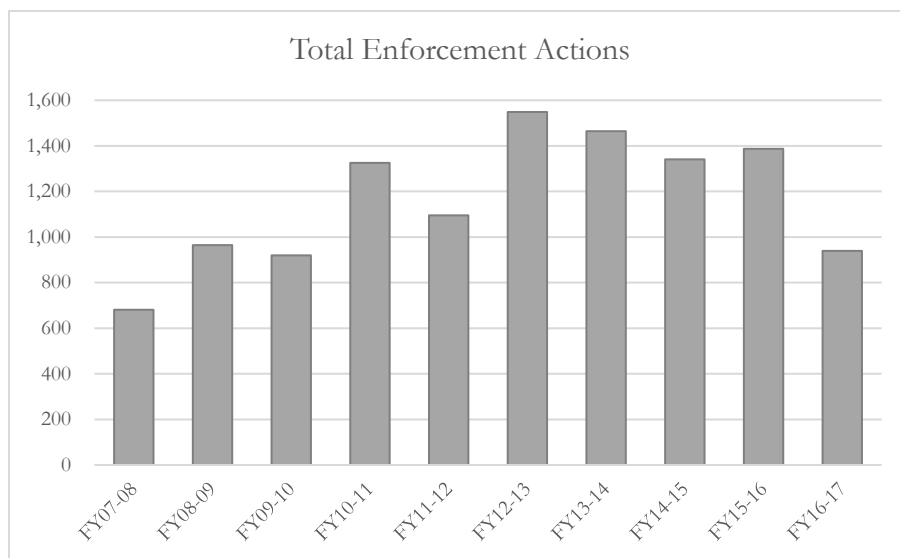
LIMITED GAMING REVENUE, EXPENSES, AND DISTRIBUTIONS							
	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17
Limited Gaming Revenue	\$105,949,859	\$103,557,500	\$104,644,974	\$106,322,700	\$111,421,159	\$118,073,006	\$119,169,899
Change	(4,859,651)	(2,392,359)	1,087,474	1,677,726	5,098,459	11,750,306	7,748,740
Percentage Change	(4.4%)	(2.3%)	1.1%	1.6%	4.8%	11.1%	7.0%
Percentage change since FY 09-10							7.5%
Compound annual growth rate							0.9%
Commission/Division Expenses	\$12,097,096	\$12,305,062	\$12,872,721	\$13,877,185	\$13,981,725	\$14,561,705	\$15,022,463
Percent of Revenue	11.4%	11.9%	12.3%	13.1%	12.5%	12.3%	12.6%
Change	(275,441)	207,966	567,659	1,004,464	104,540	684,520	1,040,738
Percentage Change	(2.2%)	1.7%	4.6%	7.8%	0.8%	4.9%	7.4%
Percentage change since FY 09-10							21.4%
Compound annual growth rate							2.5%
Total Limited Gaming Distributions	\$95,327,351	\$91,197,386	\$92,686,816	\$92,219,372	\$97,218,342	\$103,684,917	\$104,082,249
Percent of Revenue	90.0%	88.1%	88.6%	86.7%	87.3%	87.8%	87.3%
Change	(1,415,050)	(4,129,965)	1,489,430	(467,444)	4,998,970	11,465,545	6,863,907
Percentage Change	(1.5%)	(4.3%)	1.6%	(0.5%)	5.4%	12.4%	7.1%
Percentage change since FY 09-10							7.6%
Compound annual growth rate							0.9%

LIQUOR AND TOBACCO ENFORCEMENT DIVISION

The Liquor and Tobacco Enforcement Division licenses persons who manufacture, import, distribute, or sell alcoholic beverages; regulates the sale and distribution of liquor within the State, including enforcement of the liquor, beer, and special events codes; and enforces State and federal laws regarding the sale of tobacco products to minors. The following table details the enforcement actions the Division has undertaken since FY 2011-12.

LIQUOR AND TOBACCO ENFORCEMENT DIVISION - ENFORCEMENT ACTIONS						
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Total liquor licenses in force	13,515	12,816	12,998	13,348	14,113	14,154
State administrative actions	278	424	382	314	452	409
State revocations	3	0	5	0	0	4
State suspensions	51	70	44	33	57	41
State denials	1	1	3	3	3	1
Division filed court cases	756	1,042	1,026	988	874	482
Division assisted local hearings	6	12	5	3	1	2
Total Enforcement Actions	1,095	1,549	1,465	1,341	1,387	939

The following chart reflects total enforcement actions annually since FY 2007-08.

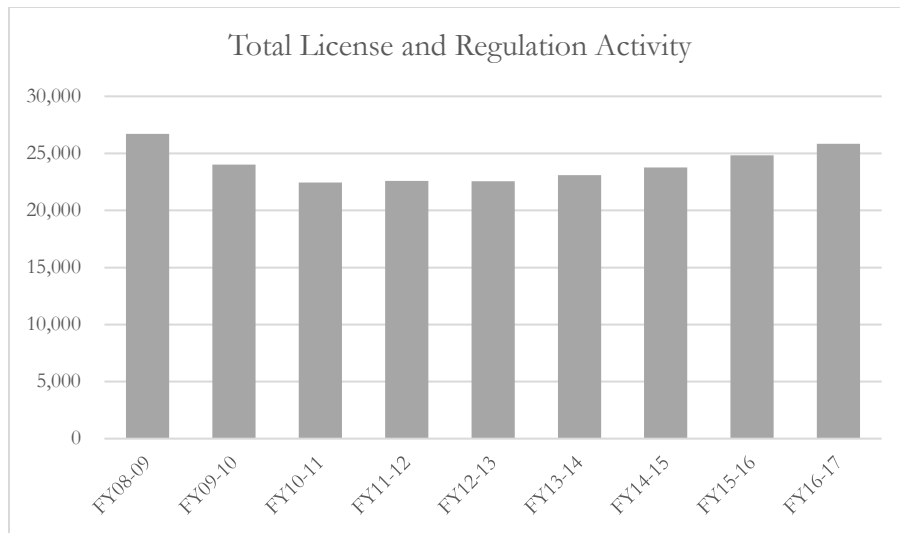


MOTOR VEHICLE DEALER LICENSING BOARD

The Motor Vehicle Dealer Licensing Board is responsible for licensing and regulating the sale and distribution of motor vehicles and promulgating consumer protection regulations. Responsibilities include licensing all salespersons and individuals with ownership interests in new and used auto dealerships. The following table outlines license and regulation activity since FY 2011-12.

MOTOR VEHICLE DEALER LICENSING BOARD - LICENSE AND REGULATION ACTIVITY						
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Total dealer/salesperson licenses issued	18,059	18,699	19,295	19,952	20,893	22,251
Complaints received	1,347	1,234	1,225	1,218	1,242	1,067
Investigations completed	1,559	1,304	1,270	1,220	1,297	1,189
Violations/founded complaints	822	673	656	697	761	671
Verbal warnings issued	360	326	238	181	122	97
Written warnings issued	137	175	225	321	420	406
Criminal summons issued	26	22	11	25	12	23
Cases presented to Dealer Board	286	135	159	153	93	141
Total License and Regulation Activity	22,596	22,568	23,079	23,767	24,840	25,845

The following chart reflects total license and regulation activity annually since FY 2008-09.



MARIJUANA ENFORCEMENT

The Department of Revenue is the state licensing authority for all regulation of businesses and employees operating under the medical and recreational marijuana laws. The Marijuana Enforcement Division issues licenses to businesses, completes background checks on business owners and employees to verify no relationship with illegal activity, and inspects marijuana businesses for compliance with all state laws. The budget for marijuana enforcement is driven by the number of licensees.

Marijuana Enforcement - Licensing Activity						
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Medical Marijuana (MM) Licensing Activity						
MM center business licenses issued	273	372	493	512	529	509
MM infused product business licenses issued	38	80	149	183	237	256
MM optional premises cultivation business licenses issued		488	729	763	785	765
Retail Marijuana Licensing Activity						
Retail licenses issued			221	372	435	492
Retail product manufacturer licenses issued			63	132	193	271
Retail cultivation			279	471	572	692
Testing facility business licenses issued			8	19	15	13

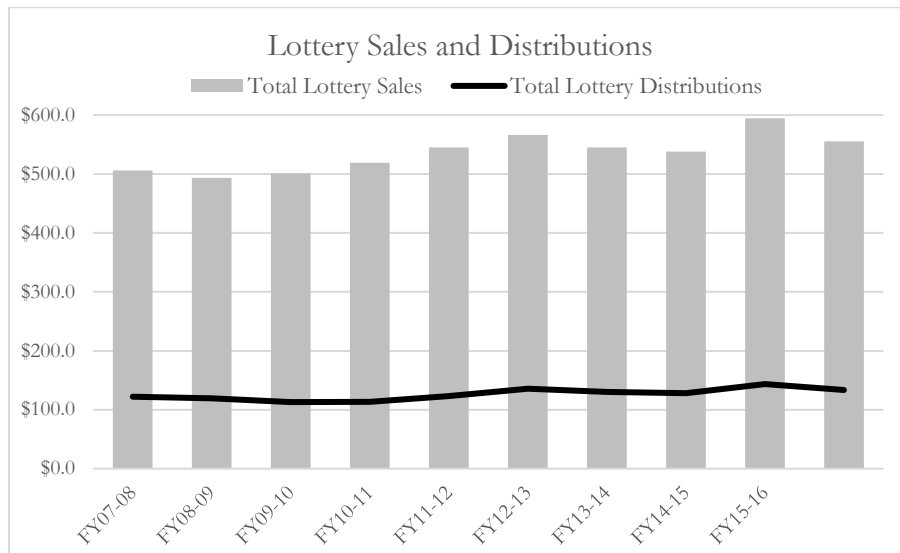
STATE LOTTERY DIVISION

The State Lottery recorded sales of \$555.3 million and net proceeds of \$133.5 million were distributed in FY 2016-17. The table below outlines total sales and net proceeds distributions since FY 2011-12.

LOTTERY - SALES AND DISTRIBUTIONS (IN MILLIONS)						
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Total Sales	\$545.3	\$566.3	\$545.0	\$538.0	\$594.4	\$555.3
Distributions						
Conservation Trust Fund	49.3	54.2	52.1	51.2	57.4	53.4
Great Outdoors Colorado	57.1	59.2	60.3	62.0	63.7	64.5

LOTTERY - SALES AND DISTRIBUTIONS (IN MILLIONS)						
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Colorado Parks and Wildlife	12.3	13.6	13.0	12.8	14.4	13.3
Public School Capital Construction Fund (BEST)	4.6	8.6	4.7	2.0	8.1	2.3
Total Distributions	\$123.3	\$135.6	\$130.1	\$128.0	\$143.6	\$133.5

The following chart reflects total lottery sales and distributions annually since FY 2007-08.



In FY 2016-17, distributions totaled \$133.5 million or 24.0 percent of total sales; prizes paid totaled \$341.4 million or 61.5 percent of sales; and program expenses totaled approximately \$79.9 million or 14.4 percent of sales. Since FY 2008-09, distributions have averaged 23.5 percent of total sales and program expenses have averaged 13.4 percent of sales.

SUMMARY: FY 2018-19 APPROPRIATION & FY 2019-20 REQUEST

DEPARTMENT OF REVENUE						
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS	FTE
FY 2018-19 APPROPRIATION:						
HB 18-1322 (Long Bill)	369,581,396	113,169,403	249,268,695	6,318,910	824,388	1,469.8
Other legislation	426,206	102,447	260,759	63,000	0	2.2
TOTAL	\$370,007,602	\$113,271,850	\$249,529,454	\$6,381,910	\$824,388	1,472.0
FY 2019-20 REQUESTED APPROPRIATION:						
FY 2018-19 Appropriation	\$370,007,602	113,271,850	\$249,529,454	\$6,381,910	\$824,388	1,472.0
R1 GenTax Support Enhancements	1,420,355	1,420,355	0	0	0	6.0
R2 Sales and Use Tax Collection	1,057,808	1,057,808	0	0	0	14.6
R3 Lottery Back Office Restructure	2,198,993	0	2,198,993	0	0	(2.0)
R4 Drivers License Documents	1,312,872	0	1,312,872	0	0	0.0
R5 DMV Leased Space	3,172,536	0	3,172,536	0	0	8.0
R6 Lottery Walmart Expansion	5,719,000	0	5,719,000	0	0	0.0
R7 Marijuana Enforcement Division Operations	2,138,418	0	2,138,418	0	0	8.0
NP1 DPA-IDS Increased Input Costs	28,903	0	28,903	0	0	0.0
NP2 Lottery OIT Staffing	0	0	0	0	0	(13.0)
OIT non-prioritized requests	708,456	274,857	433,599	0	0	0.0
Annualize prior year budget actions	3,662,659	0	3,662,659	0	0	0.0
PERA Direct Distribution common policy allocation	2,218,687	850,875	1,345,119	3,965	18,728	0.0
Centrally appropriated line items	245,424	(126,017)	156,719	25,847	188,875	0.0
Annualize prior year legislation	511,190	324,387	249,803	(63,000)	0	4.4
Indirect cost adjustments	164,346	384,485	(20,077)	(200,062)	0	0.0
Technical adjustments	(420,325)	(1,333,985)	913,660	0	0	1.0
TOTAL	\$394,146,924	\$116,124,615	\$270,841,658	\$6,148,660	\$1,031,991	1,499.0
INCREASE/(DECREASE)	\$24,139,322	\$2,852,765	\$21,312,204	(\$233,250)	\$207,603	27.0
Percentage Change	6.5%	2.5%	8.5%	(3.7%)	25.2%	1.8%

R1 GENTAX SUPPORT ENHANCEMENTS: The FY 2019-20 request includes \$1.4 million General Fund and 12.0 FTE, including 6.0 FTE for the Department and 6.0 FTE for OIT. The request annualizes to \$2.8 million General Fund and 26.0 FTE (13.0 DOR, 13.0 OIT) in FY 2020-21. These Department and OIT staff resources are requested to enhance the Department's management of its tax administration IT system known as GenTax, provided by vendor, FAST Enterprises. This request item is addressed in an issue brief.

R2 SALES AND USE TAX COLLECTION: The request includes an increase of \$1.1 million General Fund and 14.6 FTE for FY 2019-20. The request annualizes to \$815,000 and 10.6 FTE for FY 2020-21 and ongoing. The request is for staff resources to enable the Department to collect sales taxes from out-of-state retailers as result of the Supreme Court's, *South Dakota v. Wayfair* decision on June 21, 2018. This request item is addressed in an issue brief.

R3 LOTTERY BACK OFFICE RESTRUCTURE: The request includes an increase of \$2.2 million cash funds from the Lottery Fund and a decrease of 2.0 FTE in FY 2019-20 and ongoing. The request is to allow the Lottery to purchase a "back office system" from the Lottery's current gaming system

vendor. Currently the back office system is an internal, legacy IT system serviced by OIT. The Department and OIT have determined that the system has reached its end of life and requires replacement. Staff addresses the Lottery-related requests in an issue brief.

R4 DRIVERS LICENSE DOCUMENTS: The request includes an increase of \$1.3 million cash funds spending authority from the Licensing Services Cash Fund for FY 2019-20 and annualizing to an increase of \$1.7 million cash funds in FY 2020-21. The request is entirely related to volume projections for driver's license documents. The Department pays a \$4.60 per-card cost to a vendor to provide the document materials as well as all verification processing related to the document. This cost is driven generally by population growth and specifically by actual customer demand for documents. The Department also requests continuous spending authority for this line item due to the non-discretionary nature of this expense. The Department typically submits this "true-up" request every few years to maintain adequate spending authority. *Staff recommends that rather than providing statutory continuous spending authority for this line item, that annual adjustments be treated as technical adjustments rather than request items in the budget process.*

R5 DMV LEASED SPACE: The request includes an increase of \$3.2 million cash funds spending authority from the Licensing Services Cash Fund and 8.0 FTE for FY 2019-20. The request annualizes to \$954,000 cash funds and 8.0 FTE in FY 2020-21 and ongoing. This request addresses the first-year move and build-out costs for expiring leases for driver's license offices (DLOs) in Littleton, Parker, Boulder, and Longmont. The Department operates 34 DLOs across the State and this is essentially an annual request for funds to address increased and changed space needs for four or five of those DLOs. This request item is further addressed in an issue brief.

R6 LOTTERY WALMART EXPANSION: The request includes an increase of \$5.7 million cash funds spending authority from the Lottery Fund for FY 2019-20; annualizing to \$2.3 million cash funds in FY 2020-21 and ongoing. This request is to lease 200 additional Gemini vending machines to be located in Walmart Super Centers. The Department states that this expansion should increase Lottery sales by \$29 to \$40 million, providing approximately \$6 to \$9 million in additional proceeds for Lottery beneficiaries. Staff addresses the Lottery-related requests in an issue brief.

R7 MARIJUANA ENFORCEMENT DIVISION OPERATIONS: The request includes an increase of \$2.1 million cash funds from the Marijuana Cash Fund (not the Marijuana Tax Cash Fund), the Department's marijuana regulation program cash fund, and 8.0 FTE for FY 2019-20. Of the \$2.1 million, \$914,416 will be transferred to the Marijuana Tax Cash Fund (MTCF) to fund 5.0 FTE in the Colorado Bureau of Investigation (CBI) to combat black market activity. The request annualizes to \$1.8 million and 8.0 FTE (including \$890,901 transferred to the MTCF to fund 5.0 FTE in the CBI) in FY 2020-21 and \$949,000 and 8.0 FTE in FY 2021-22 and ongoing, with no continuation of funding for CBI resources from the Marijuana Cash Fund beyond the second year. The Department states that this request is the result of a request from local law enforcement across the state for CBI to address illegal and unregulated residential cultivation of marijuana.

NP1 DPA-IDS INCREASED INPUT COSTS: The request includes a decrease of \$1,216,425 General Fund for FY 2018-19 and ongoing. This appropriation was included in H.B. 11-1300 (Conservation

NP2 LOTTERY OIT STAFFING: The request includes a net-neutral funding adjustment and a decrease of 13.0 FTE for FY 2019-20 and ongoing.

OIT NON-PRIORITIZED REQUESTS: The request includes adjustments related to budget requests made by the Governor's Office of Information Technology that affect the Department of Revenue in FY 2019-20, which are summarized in the following table.

OIT NON-PRIORITIZED REQUESTS				
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	FTE
NP5 OIT Securing IT operations	\$567,896	\$220,324	\$347,572	0.0
NP4 OIT Essential database support	79,130	30,700	48,430	0.0
NP6 OIT Application refresh and consolidation	45,461	17,639	27,822	0.0
NP7 OIT Optimize self-service capabilities	15,969	6,194	9,775	0.0
TOTAL	\$708,456	274,857	\$433,599	0.0

ANNUALIZE PRIOR YEAR BUDGET ACTIONS: The request includes a net increase of \$3,662,659 total funds for prior year budget actions, summarized in the following table.

ANNUALIZE PRIOR YEAR BUDGET ACTIONS					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FTE
Annualize FY18-19 R1 DRIVES maintenance and support (FAST Enterprises contract)	\$3,802,240	\$0	\$3,802,240	\$0	0.0
Annualize prior year salary survey	0	0	0	0	0.0
Annualize FY18-19 BA2 DMV Staffing	(128,971)	0	(128,971)	0	0.0
Annualize FY18-19 BA1 DRIVES production support	(10,610)	0	(10,610)	0	0.0
TOTAL	\$3,662,659	0	\$3,662,659	\$0	0.0

PERA DIRECT DISTRIBUTION COMMON POLICY ALLOCATION: The request includes an increase of \$2.2 million total funds including \$850,875 General Fund for the PERA Direct Distribution allocation submitted for all agencies by the Governor's Office of State Planning and Budgeting. This adjustment is summarized in the following table for comparison to the items included in the centrally appropriated line items table that follows.

PERA DIRECT DISTRIBUTION COMMON POLICY ALLOCATION						
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS	FTE
PERA Direct Distribution	\$2,218,687	\$850,875	\$1,345,119	\$3,965	\$18,728	0.0
TOTAL	\$2,218,687	\$850,875	\$1,345,119	\$3,965	\$18,728	0.0

CENTRALLY APPROPRIATED LINE ITEMS: The request includes an increase of \$245,424 total funds including a decrease of \$126,017 General Fund related to employee benefits and other centrally appropriated items. This total includes the following changes:

CENTRALLY APPROPRIATED LINE ITEMS						
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS	FTE
Merit pay adjustment	\$2,549,907	\$1,060,062	\$1,463,678	\$4,903	\$21,264	0.0
Legal services adjustment	1,065,055	659,611	405,444	0	0	0.0
Leased space adjustment	224,063	20,044	204,019	0	0	0.0
AED adjustment	223,944	(28,715)	213,971	2,741	35,947	0.0
SAED adjustment	223,944	(28,715)	213,971	2,741	35,947	0.0
Salary survey adjustment	28,227	364	27,863	0	0	0.0
Health, life, and dental adjustment	22,779	(98,255)	11,160	15,371	94,503	0.0

CENTRALLY APPROPRIATED LINE ITEMS						
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FEDERAL FUNDS	FTE
Payment to risk management/property funds adjustment	18,448	4,756	13,692	0	0	0.0
Short-term disability adjustment	6,354	(1,477)	6,526	91	1,214	0.0
Payments to OIT adjustment	(3,640,303)	(1,412,326)	(2,227,977)	0	0	0.0
Capitol Complex leased space adjustment	(223,384)	(195,253)	(28,131)	0	0	0.0
Workers' compensation adjustment	(145,754)	(65,448)	(80,306)	0	0	0.0
CORE adjustment	(71,141)	(34,994)	(36,147)	0	0	0.0
DPA Annual fleet vehicle request	(22,685)	(5,671)	(17,014)	0	0	0.0
Shift differential adjustment	(11,971)	0	(11,971)	0	0	0.0
ALJ adjustment	(2,059)	0	(2,059)	0	0	0.0
TOTAL	\$245,424	(126,017)	\$156,719	\$25,847	\$188,875	0.0

ANNUALIZE PRIOR YEAR LEGISLATION: The request includes a net decrease of \$511,190 total funds to reflect the FY 2019-20 impact of bills passed in previous sessions, summarized in the following table.

ANNUALIZE PRIOR YEAR LEGISLATION					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROPRIATED FUNDS	FTE
Annualize HB18-1185 Market Sourcing for Bus Inc Tax Apport	\$260,662	\$260,662	\$0	\$0	0.0
Annualize SB18-141 Income Tax Check-off Nonprofit Donation	239,510	0	239,510	0	1.8
Annualize SB17-267 Sustainability of Rural Colorado	53,064	53,064	0	0	0.6
Annualize HB18-1217 Inc Tax Credit for Employer 529 Contrib	50,000	0	50,000	0	0.0
Annualize HB18-1060 Income Tax Deduction Mil Retirement	35,038	35,038	0	0	0.0
Annualize HB18-1350 Machine Tool Sales Tax Exemption	24,328	24,328	0	0	0.4
Annualize HB18-1267 Income Tax Credit for Retrofitting	12,162	12,162	0	0	0.1
Annualize HB18-1208 Expand Child Care Exp Inc Tax Credit	11,040	11,040	0	0	0.0
Annualize HB13-1110 Alternative Fuels	10,196	0	10,196	0	0.0
Annualize SB18-108 Eligibility CO Road and Comm Safety Act	6,879	0	6,879	0	1.5
Annualize HB17-1012 Pueblo Chile License Plate	183	0	183	0	0.0
Annualize HB17-1212 Aviation Special License Plate	182	0	182	0	0.0
Annualize SB18-233 Elections Clean-up	(63,000)	0	0	(63,000)	0.0
Annualize HB18-1339 Background checks employees access	(35,590)	(35,590)	0	0	0.0
Annualize SB18-243 Retail Sales Alcohol Beverages	(17,796)	0	(17,796)	0	0.0
Annualize SB18-259 Local Government Retail Marijuana Taxes	(15,840)	(15,840)	0	0	0.0
Annualize HB18-1280 Court Appointees for Marijuana Bus	(14,032)	0	(14,032)	0	0.0
Annualize SB18-271 Improve Funding for Marijuanan Research	(10,656)	0	(10,656)	0	0.0
Annualize HB18-1042 Private Interstate Comm Vehicle Reg	(10,607)	(10,607)	0	0	0.0
Annualize HB18-1285 Remuneration-exempt Disability Parking	(9,870)	(9,870)	0	0	0.0
Annualize HB18-1255 Childhood Cancer License Plate	(7,252)	0	(7,252)	0	0.0
Annualize HB18-1025 Move Title 12 Liquor to Title 44	(3,091)	0	(3,091)	0	0.0
Annualize HB18-1244 Submarine Veterans License Plate	(2,220)	0	(2,220)	0	0.0
Annualize SB18-036 Relocate Title 24 Tobacco Sales	(2,100)	0	(2,100)	0	0.0
TOTAL	\$511,190	324,387	\$249,803	(\$63,000)	4.4

INDIRECT COST ADJUSTMENT: The request includes net adjustments to indirect costs across the Department.

TECHNICAL ADJUSTMENTS: The request includes technical adjustments, summarized in the following table.

TECHNICAL ADJUSTMENTS				
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	FTE
DPA-IDS Tax Pipeline adjustment	\$932,415	\$932,415	\$0	0.0
Limited Gaming continuous appropriation adjustments	868,667	0	868,667	1.0
FAST Enterprises contract escalator	341,160	166,440	174,720	0.0
Adjustment for revenue forecast	(2,562,567)	(2,432,840)	(129,727)	0.0
TOTAL	(\$420,325)	(1,333,985)	\$913,660	1.0

ISSUE: R1 GENTAX SUPPORT ENHANCEMENTS AND GENTAX IT SYSTEM CONCERNS

The Department requests a two-year build-out of an in-house technical team in the Department and in the Governor's Office of Information Technology (OIT) for GenTax, the State's tax administration IT system. This build-out represents a change in strategy for managing the GenTax system in which the Department and OIT expect to play a more hands-on and directed management approach to the system, which previously was relinquished by default to the vendor, FAST Enterprises. While the Department's objective appears to be a step in the right direction, the State should more aggressively address the fundamental problems with the GenTax system as well as its weak economic position relative to the vendor.

SUMMARY

- The request totals \$1.4 million General Fund and 12.0 FTE, including 6.0 FTE each for the Department and OIT in the first year. The request annualizes to \$2.8 million General Fund and 26.0 FTE, including 13.0 FTE for each.
- This request item allows the Department and the State to establish a stronger position relative to the GenTax contract vendor as it relates to the understanding and management of the technical aspects of the GenTax system.
- The request item, which represents phase 1 of 3 phases in the Department's larger initiative, comes at a cost of 50 percent more than the annual maintenance contract amount paid to the vendor – \$5.7 million, and at a cost of 40 percent more than all GenTax related annual costs incurred by the Department – \$6.8 million.
- The GenTax system is a GUI- or graphic user interface-based system, rather than a data-centric or database-driven IT system. While the contract with the vendor specifies that the State retains ownership of its tax data, there is no tax data automatically generated, collected, or stored by the GenTax system.
- Since the GenTax system has been in operation, the Department has not been able to provide actual, aggregated tax data for a wide variety of state, regional, industry-specific, and economic sector data points.
- To partially address the lack of access to data, the Department either contracts with the vendor to begin capturing necessary data points for future reporting ability or engages its staff resources to retrieve and compile data points from tax documents individually for historical data requests.
- The system's inherent lack of data storage, access to data, and aggregated reporting limits legislative economists' and fiscal analysts' ability to identify correlations and trends for the purpose of improved economic forecasts and to more accurately and confidently project tax revenue changes as a result of tax policy changes proposed in legislation.

DISCUSSION

OVERVIEW

The Department requests a two-year build-out of an in-house technical team in the Department and in the Governor's Office of Information Technology (OIT) for GenTax, the State's tax administration IT system. The request totals \$1.4 million General Fund and 12.0 FTE, including 6.0 FTE for each in the first year. The request annualizes to \$2.8 million General Fund and 26.0 FTE, including 13.0 FTE for each.

The Department's request narrative states that the two-year build-out included in this request is the first of a three-phase plan that also intends to address: areas of deficiency in system functionality in phase 2; and additional reporting ability related to legislative requests in phase 3.

This build-out represents a change in strategy for managing the GenTax system in which the Department and OIT expect to play a more hands-on and directed management approach to the system. Previously, the Department has relied on the vendor, FAST Enterprises, to single-handedly provide day-to-day, technical operation of the system, including the provision of programming changes to accommodate policy changes and the collection of data points related to requests for information that often emanate from legislative economists, legislative staff, and legislators.

The Department's budget currently includes funding for an internal, Department team that is dedicated to the GenTax system. The current team is a staff of 14, which consists of 10 Analyst III, three Analyst IV, and one Administrator V positions. The team is located in the budget in the Taxation and Compliance section of the Taxation Business Group; however, functionally, the team is transitioning to a department-wide oversight structure within the EDO. The Department anticipates realigning the budget in the next budget cycle. Staff resources related to this request would similarly be located within the EDO. The Department describes the task responsibility as "the whole team works to support GenTax based on the highest priority needs". It is staff's understanding that this team has primarily functioned in a liaison capacity from the Department to the vendor, for the purpose of communicating and securing programming changes related to tax policy changes and what are determined to be ongoing legislative requests for information, in addition to internal "help desk" and technical troubleshooting responsibilities.

The Department's current budget includes an appropriation of \$5.7 million General Fund for the contracted, annual operating expenses for the GenTax system, paid to the vendor. Additionally, the Department estimates that another \$1.1 million is spent on the internal GenTax team. The additional \$2.8 million included in the annualized or out-year portion of the request, represents an increase of just under 50 percent on the contracted, annual operating expenses amount, and just over 40 percent of the current, total annual spending on GenTax. Additionally, these percentage increases on current spending do not include estimates for future phases for this Department initiative.

The Department's request narrative includes specific, budget and staffing-related technical information that JBC staff will not address in this issue brief at this time; staff will include a more detailed analysis of the staffing specifics of the request for a figure-setting recommendation. However,

JBC staff will address the larger context of this request to better acquaint the Committee with staff concerns related to the GenTax system as a whole, and how those concerns affect this request.

THE GEN TAX PROBLEM

Following the 2018 legislative session, staff was alerted to reporting concerns related to the GenTax system by Legislative Council Staff (LCS) economists.

As staff understands it, for the period since the GenTax system has been in operation, the Department has not been able to provide actual, aggregated tax data for a wide variety of state, regional, industry-specific, and economic sector data points. This limits the economists' ability to identify correlations and trends for the purpose of improved economic forecasts and to more accurately and confidently project tax revenue changes as a result of tax policy changes proposed in legislation.

Over the interim, staff attended a handful of meetings with LCS economists and Department representatives to discuss potential solutions to this issue generally and the limitation of reporting that appears to be a fundamental aspect of the GenTax system.

It is staff's opinion that the fundamental problem with the GenTax system is two-fold:

- First, the State, through the Department's decisions to contract with the vendor (FAST Enterprises) for this specific IT solution (GenTax), ceded substantial authority over its tax data. It is staff's understanding that the contract with the vendor specifies that the State retains ownership of or "owns" its tax data. However, as will be explained, the tax "data" stored in GenTax does not exist in a form that is commonly or readily understood as "data".
- Second, the specific IT solution – GenTax – is fundamentally flawed as a tax administration and reporting system because it was designed as a predominantly "GUI-based" IT system rather than as a data-centric or database-driven IT system.

GUI is the acronym for graphical user interface "that allows users to interact with electronic devices through graphical icons and visual indicators" (from Wikipedia) rather than through keyboard or text-based commands. While GUI typically refers to a system with a user-friendly interface, it appears that the GenTax system is, fundamentally, an image storage system. GenTax stores images of tax return information rather than generating data tables from all of the data included by taxpayers on tax forms.

GenTax system images of tax information can be retrieved by the Department on an individual taxpayer and document basis – such as for the purpose of an audit. However, whether categorically or statewide, the GenTax system does not automatically record, retain, or capture any data included in such images for aggregated reporting purposes. As the Department identifies a critical data point that should be tracked – either for its own purposes or to respond to legislative requests for information – it contracts with the vendor to begin capturing the necessary data point or points specifically. Each such individual capture of information or data from this image-based system requires specific coding by the vendor, within its proprietary GenTax system code, to begin capturing such data for every future tax form.

In contrast, a database-driven system would hold and store those data points, for access historically and perpetually, and would only require commonly available relational database report coding for the purposes of retrieving that data in the form of a report.

It is staff's understanding that for some historical reporting, the Department has engaged its staff resources in retrieving data points from each tax document individually for the purpose of compiling requested information. Such an exercise requires immense staff resources for an operation that should otherwise simply require the creation of a report to pull such data out of a data table. In this case – with GenTax – there is no data table; there are only images of tax forms with numerical-looking squiggles on the page representing actual taxpayer data, and, to the human eye, readable as data on an individual form, but not automatically readable as a data point by an image-based IT system like GenTax.

Additionally, without access to a database of taxpayer information, it appears that the Department lacks the capacity to survey in an automated manner, whole categories of taxpayer forms for errors or fraud; instead, relying on random sampling of individual taxpayers for audit purposes.

THE GEN TAX CAPITAL CONSTRUCTION REQUEST

Staff has reviewed the Department's final capital construction request for the GenTax system submitted for FY 2011-12, at that time referred to as the Colorado Integrated Tax Architecture (CITA) project.

The following statement is the first objective section included in the Department's request narrative (emphasis added):

a. List key objectives of the entire project – big picture

*CITA will update and replace various information technology systems that support the Department of Revenue's administration of the state's tax laws. The age and the disparate nature of these systems make it very difficult for the Department to modify and maintain as requirements change and to perform industry-standard consolidated taxpayer reporting without great effort. CITA will allow the Department of Revenue to: (1) consolidate multiple, antiquated, disparate tax processing systems into a single, contemporary, integrated, taxpayer account-centric system that incorporates business best practices for state tax administration; (2) enhance the application of Generally Accepted Accounting Principals (GAAP); (3) reduce the amount of manual effort required for distribution of funds to the state, counties, cities, and special districts; **(4) provide the Department of Revenue with more reliable data that can be used for better reporting and analytical capabilities;** (5) improve its receivables management; (6) implement tax administration best practices; and (7) improve Department of Revenue productivity.*

The following statement is the justification section included in the Department's request narrative:

The Department of Revenue has received appropriations for CITA since FY 2006-07 to replace several legacy computer systems which date from 1962. These systems are responsible for processing income taxes; recording, posting, and reporting business taxes, licenses, and fees; and issuing assessments for delinquent taxes, penalties, and interest. In FY 2008-09, these systems were responsible for collecting and tracking \$4.7 billion in income tax receipts and \$2.1 billion in business sales and use tax and licensing revenue. The Department's legacy systems utilize a patchwork of

programming languages that do not communicate well with one another. Department programming staff must be conversant with, or trained on, programming languages no longer in common use among industry personnel or taught at institutions of higher learning.

Managing these systems – both individually and together – is challenging because they are so antiquated. Colorado’s population has almost tripled since 1962, which equates to a significant increase in the number of tax documents that require processing. Over the course of FY 2008-09, the Department processed more than 7.2 million tax-related documents. Additionally, Colorado’s tax code has become increasingly complex and data intensive. The likelihood of a catastrophic system failure or a series of independent outages increases each year. Either of these possibilities could prevent the Department of Revenue from properly collecting, processing, and recording all or a portion of Colorado’s various revenue streams. Moneys collected by the Department of Revenue support all of the state’s General Fund operating and capital construction budgets.

The Department’s current information technology infrastructure has numerous shortcomings that CITA will specifically address and resolve.

- *Tax Administration – The Department of Revenue oversees tax activity in 260 districts (cities, counties and special districts) as well as for individual and corporate income tax. As indicated above, the systems currently in use were developed separately. This makes it difficult for Department staff to adequately and equitably administer tax law. The Department does not have the capability to view consolidated taxpayer information. Thus, timely and efficient resolution to customer inquiries is increasingly difficult.*
- *Legislative Initiatives – Updating the Department’s tax systems accurately and efficiently is critical. Annual changes to state and federal codes require ever increasing programming resources. Any failure to adopt these changes in a timely manner requires lead Department staff to conduct manual interventions, which is an inefficient use of resources. Issues associated with legislative initiatives have, in part, lead to a specific line item in the Department’s budget that is dedicated to providing appropriations for changes to the tax code.*
- *Data Manipulation – Systems developed between 17 and 47 years ago are not readily able to provide the data that Department staff need in today’s business environment. Some of the original systems were designed with data fields that have grown restrictive, but which were not when they were created. For example, the length of data fields in the Income Tax System was set at seven, which means that a specific tax return’s maximum filing range is \$9,999,999. Corporate tax returns often exceed this amount today, and as such, pose logistical problems for Department staff. Prior to FY 2005-06, this limitation caused a \$54.8 million miscalculation of the State’s TABOR cap.*

CITA will consolidate the multiple, antiquated, disparate tax processing systems described above into a single, contemporary, integrated, taxpayer account focused system that incorporates business best practices for state tax administration. The problems with the Department’s current capabilities will be resolved because GAAP can be easily applied and many current manual workflow processes can be automated.

The Department’s current systems require administrators to submit a request for a report to mainframe programmers. This process is inherently slow. With

CITA, staff in the Department's Taxation Business Group will be able to create ad-hoc reports in a timely manner. *Because the Department maintains four separate tax systems, it is very difficult for staff to have consolidated information on any one taxpayer's account information. This leads to a decline in customer service for the public and in productivity for Department staff. With the implementation of CITA, all tax information on an account can be accessed via the same program. The Department believes that this will lead to higher service levels for the general public and higher standards for the Department.*

Department statements included in the capital construction request clearly refer to improved reporting and analysis capabilities.

THE TAXATION DIVISION'S REVISIONIST HISTORY

In discussions with the Department, representatives from the Taxation Division state that GenTax was always intended to be a "tax administration system" and was never intended to be a "tax reporting system". When challenged with the statements included in the capital construction request, those representatives state that reporting from the GenTax system is much improved over the legacy systems, regardless of the appearance that it falls short.

JBC staff was not the Department staff analyst prior to GenTax and therefore cannot assess the veracity of that statement. However, the capital construction request narrative states that the legacy system required administrators to submit a request for a report to mainframe programmers. It appears that tax data was available to be pulled from within the system, even if it involved a "slow process". It also appears that the current system does not have functionality to access historical data points through an automated process. Staff believes that the statement that reporting is much improved in GenTax relative to the legacy system it replaced is likely not an accurate statement.

It is also staff's opinion that the representatives from the Taxation Division are engaging in revisionist history in order to justify the current system and uncritically defend the GenTax project generally. It is staff's understanding that the Department's prior Taxation Director was hired by the vendor following Department implementation of the GenTax system. In staff's opinion, while such information does not establish an automatic assumption of malfeasance, this anecdotal information should call for additional scrutiny of the decisions made in the implementation of the GenTax system; particularly given the substantial concerns expressed by various interested parties outside of the Taxation Division.

THE PERSPECTIVE OF CURRENT DEPARTMENT LEADERSHIP

Based on discussions with the representatives from the Department budget office and Department leadership in the EDO, it is staff's opinion that the initiatives included in this request are intended to best correct problems identified with the GenTax system and the Department's knowledge and bargaining position relative to the vendor. In staff's opinion, current leadership properly takes the position that there is a problem with the GenTax system; that likely, there were problems with the decisions made to implement GenTax; and that this leadership team, while not involved in those earlier decision points, is working to best resolve the current problems faced by the State as it relates to the GenTax system.

The Department states that the vendor's off-the-shelf tax modules are the only customizable off-the-shelf tax administration system available in the market. This gives FAST Enterprises a monopoly position in this market; and through conversations with a variety of participants in these discussions,

all other states in contract with the vendor for tax administration systems are seeking ways to improve their bargaining position relative to the vendor. In this request, the Department seeks to build an internal technical team that will initially get up to speed on the technical specs of the current system. This will allow the Department to counterbalance the knowledge and bargaining power that the vendor is able to exert over the Department and the State regarding all aspects of the system.

The Department provided staff with a pdf slideshow called GenTax Risk Assessment, Internal Audit, March 2018. The Department refers to this file as an audit report. However, in staff's opinion, this is a highly conceptual slideshow, with very little narrative explanation of the findings of any audit. If an internal "audit" was actually completed, its documentation in the form of an audit report does not appear to exist. Nevertheless, one of the points included in the pdf slideshow is that the Department has insufficient institutional knowledge of GenTax and that a knowledge transfer from the vendor to the State has not occurred. The slideshow points out that the risk is that if FAST Enterprises chose not to renew the support contract, the State would be unable to process tax returns. While this statement is true, it is not a likely outcome; and the greater risk is unstated: the State, through the Department's contract with the vendor, and through the Department's management of this relationship, has left the State hostage to the ongoing goodwill of the vendor.

The Department's intentions in this request item are to eliminate the greater knowledge and bargaining position held by the vendor. In this solution, it appears that the cost for the current request will require spending that is 50 percent greater than the current cost. While this may be a high cost to pay for some additional control and needed technical knowledge of the existing system, the cost may be worthwhile given the alternative of maintaining the status quo and continuing the State's lackadaisical approach to the vendor and attitude related to the preservation of and access to its tax data.

OTHER STATES

It is staff's understanding that all other states using GenTax do not exclusively use vendor developers as Colorado has done. Additionally, anecdotal information was shared with staff which suggests that another GenTax state structured the formation of a data warehouse, and related database functionality, as a part of its GenTax implementation and contract. This data warehouse is state-owned and that state retains access and effective ownership of all tax data submitted on tax forms by taxpayers.

While this request is silent on the specifics included in phase 2 of the Department's larger GenTax initiative, staff believes that such a phase 2 may include similar functionality. With such a database functionality and the return of access to real-time and historic tax data, the Department could easily transition into its phase 3 of improved reporting for legislative requests. Although, even with a change now, it appears that the years of data reported on tax forms since the implementation of GenTax are effectively lost to the State; short of reconstruction through manual retrieval and compilation.

STAFF RECOMMENDATION

1. Staff recommends that the Committee refer this request to the Joint Technology Committee (JTC), pursuant to Joint Rule 45(b).

Joint Rule 45(b) states that the JBC, the CDC, or the JTC, at its discretion, may refer a particular request for review by another committee. Staff has discussed this item with JTC staff. The JTC is scheduled to meet next on December 13th, and after that will likely meet on January 11th. JTC staff believe that the JTC can perform a technical review of this request and return a recommendation to JBC staff in time for figure setting.

Staff supports the Department's objective in concept. Staff agrees that the GenTax system should have additional resources on the State side in order to counterbalance the knowledge advantage and relative economic power of the vendor. Staff agrees that the Department and OIT need to take more active technical authority and responsibility over the GenTax system. However, the internal audit document provided by the Department as justification for the request does not include any ascertainable data, analysis, or explanation to convince staff to support or recommend this particular request. However, staff believes the JTC may be able to better vet the project for appropriateness and readiness and provide a better assessment of the Department's plan for accomplishing this objective.

2. Further, staff recommends that the JTC also undertake the consideration of an IT capital construction project for the implementation of a state-owned tax data warehouse for all data provided by taxpayers on state tax forms and collected through the GenTax system. Such a data warehouse could function in an environment in which the State remains bound to the vendor and the current GenTax system or in an alternate environment in which the State contracts with independent coders to develop, one module at a time, a state-directed, state-controlled, and state-owned tax administration system. Staff urgently recommends that the funding for and implementation of such a tax data warehouse be considered in conjunction with the Department's R1 operating request for FY 2019-20.

3. Additionally, staff recommends that the JTC also undertake the consideration of the development of a severance tax administration module independent of the GenTax system. This recommendation relates to the Department's RFI that is attached in Appendix C on footnotes and RFIs. That RFI is related to reporting concerns specifically related to severance tax policy and budget issues experienced in recent years.

It is staff's understanding from discussions with the Department that the vendor has newer versions of certain modules, such as the module for severance tax. However, staff would recommend that the State consider moving away from GenTax and toward the development of an independent tax administration system. The Department believes that the current vendor is the only viable tax administration system available in the market. It is staff's opinion that the State should not approach its relationship with a vendor from this perspective or with this mindset – regardless of the administrative sense of convenience provided by a vendor-hosted solution.

On that basis, staff recommends that the JTC consider making a recommendation on the development of an independent, database-centric, severance tax administration module through a contract with an independent, contracted coder that could function as a test of the cost and viability of creating a state-directed, state-controlled, and state-owned tax administration IT system that could replace GenTax incrementally over time.

ISSUE: R2 SALES AND USE TAX COLLECTION AND OUT-OF-STATE RETAILER SALES TAX COLLECTION

States were previously prohibited from imposing sales tax obligations on retailers who lacked a physical presence within a state. The U.S. Supreme Court reversed its position on the physical presence requirement in its *South Dakota v. Wayfair* decision on June 21, 2018. With the elimination of the physical presence requirement, the Department is now required to collect sales taxes from out-of-state retailers. The Department promulgated two rules related to this change and the Department requests resources to update the GenTax registration process to minimize or eliminate manual registration processes and increase staff resources to provide customer service related to these sales tax collections.

SUMMARY

- Statute requires the Department to collect sales taxes on all tangible personal property at retail sale.
- With the elimination of the physical presence requirement, the Department is now required to collect sales taxes from out-of-state retailers.
- The Department has promulgated two rules related to the Wayfair decision to begin implementation of the collection of sales and use taxes from out-of-state retailers as of December 1.
- The first is a *de minimis* standard, consistent with South Dakota's treatment of out-of-state retailers, which requires out-of-state retailers with 200 or more transactions or with sales of \$100,000 or more in a year to collect and pay sales and use taxes to the State.
- The second is a destination-sourcing rule, which requires all retailers, including in-state retailers, to collect sales taxes based on the destination of a sale for sales not made in-store.
- The Department projects that sales tax revenue will increase \$168 to \$262 million annually related to these collections.

DISCUSSION

LEGAL OVERVIEW

States were previously prohibited from imposing sales tax obligations on retailers who lacked a physical presence within a state. The U.S. Supreme Court reversed its position on the physical presence requirement in its *South Dakota v. Wayfair* decision on June 21, 2018.

Section 39-26-104 (1)(a), C.R.S., requires the Department to collect sales taxes "upon all sales and purchases of tangible personal property at retail". With the elimination of the physical presence

requirement, as the Department interprets its statutory responsibility to collect sales taxes, it is now required to collect sales taxes from out-of-state retailers.

The Department submitted an interim supplemental request in September related to this decision. That request was not approved by the Committee. Nevertheless, in its effort to uphold its statutory obligations, the Department has promulgated the following two rules related to the Wayfair decision to begin implementation of the collection of sales and use taxes from out-of-state retailers as of December 1.

- The first is a *de minimis* standard, consistent with South Dakota's treatment of out-of-state retailers, which requires out-of-state retailers with 200 or more transactions or with sales of \$100,000 or more in a year to collect and pay sales and use taxes to the State.
- The second is a destination-sourcing rule, which requires all retailers, including in-state retailers, to collect sales taxes based on the destination of a sale for sales not made in-store.

At the time of the interim supplemental request, staff consulted with staff attorneys from the Office of Legislative Legal Services (OLLS) regarding the Department's current statutory authority. Based on information provided by OLLS, staff is satisfied that the Department has statutory authority to promulgate the rules and implement the collection of sales and use taxes from out-of-state retailers.

The Department projects that sales tax revenue will increase \$168 to \$262 million annually related to these collections.

THE DESTINATION-SOURCING RULE

While the *de minimis* standard rule is directly related to the South Dakota standards reviewed in the Wayfair decision and is relatively self-explanatory, the destination-sourcing rule is a critical change that requires additional, technical explanation.

The destination-sourcing rule requires all retailers, including in-state retailers, to collect sales taxes based on the destination of a sale for sales not made in-store. For in-state retailers, in an online retail transaction that requires a package to be shipped, sales taxes have traditionally been collected based on the location of the retailer shipping the package to a customer. This made the calculation of sales taxes by the retailer straightforward and consistent for every sale made to any in-state customer.

However, the collection of sales taxes from out-of-state retailers necessarily requires that sales taxes be collected based on the customer location or destination of the shipped package and not on the sales tax rates of the retailer's location. In order to apply this standard fairly across all retailers, in-state retailers would be required to follow this standard.

However, in addition to the fairness across retailers, the destination-sourcing rule also improves economic fairness related to the distribution of sales taxes to local governments – particularly for smaller and more rural communities. The destination-sourcing rule returns sales tax revenue to the customer's local governments which had previously been paid to the retailer's local governments. For smaller and more rural communities, whose population base has lesser access to retail products generally, the destination-sourcing rule generates sales tax revenue based on the purchases made by the community's population base for online purchases.

Nevertheless, this change does entail a substantial change in process for in-state retailers. The Department's request includes 4.0 FTE of Training Specialist IIIs to be located in existing service locations outside of Denver, including Fort Collins, Colorado Springs, Pueblo, and Grand Junction. These staff resources would be dedicated to sales tax training for in-state businesses related to this change. This portion of the request is a repeat of the same portion in the Department's interim supplemental request.

The Department states that it only has authority to collect for state-collection jurisdictions but not for home-rule jurisdictions without a formal agreement. Home rule jurisdictions are responsible for their own sales tax collection. However, the Department states that most if not all home-rule jurisdictions have destination-sourced policies in place; and the Department's rule change adds consistency across the State in this respect. However, it also appears to be the case that businesses may not be filing destination-sourced sales taxes correctly with home-rule jurisdictions.

On the State side, despite the denial of the interim supplemental request, and to accommodate basic needs for the rule change, the Department: established a grace period to address this transition to destination-sourcing; established a single portal for registration, filing, and remittance on the GenTax system by re-prioritizing GenTax needs; and reassigned staff resources from other areas to work with retailers exclusively on sales tax issues and questions. Additionally, currently the Department has one trainer for public information, so the Department developed webinars to explain processes and has established separate FAQ pages for in-state retailers and out-of-state retailers.

The Department explains that they implemented aspects of the objectives included in the interim supplemental request, but on a much smaller scale. This request would enable the Department to better address the destination-sourcing rule change and the collection of sales taxes from out-of-state retailers.

REQUEST SPECS

The Department requests \$1.1 million General Fund and 14.6 FTE in FY 2019-20, and \$815,000 General Fund and 10.6 FTE ongoing for this request.

Staff will analyze the specifics of the request for a figure setting recommendation. However, at this time staff anticipates recommending approval of the request based on the following factors:

- Attorneys at the OLLS have advised staff that the Department has the authority to promulgate rules changes based on its statutory responsibility to collect sales taxes, following the change in legal application determined in the *Wayfair* Supreme Court decision.
- On the basis of public policy and tax policy fairness, sales taxes should be collected consistently across all retailers, whether operating from traditional, "bricks and mortar" stores or online.
- The change to destination-sourcing for the payment and collection of sales taxes may increase sales tax revenue collection for smaller communities and rural tax bases and enhances the sense of economic fairness for those smaller communities and rural tax bases.

ISSUE: R5 DMV LEASED SPACE, STATE-BUILD-AND-OWN DRIVER'S LICENSE OFFICES, AND DOR SPACE NEEDS

The Department requests additional cash funds resources for leased space increases and improvements for Division of Motor Vehicles, driver's license offices (DLOs) in Littleton, Parker, Boulder, and Longmont. The Department operates 34 DLOs across the state, and typically includes a request for leased space renewals, increases, and improvements for 4 to 5 of the DLOs each year. The Department leases space for DLOs from private commercial property owners and there may be an opportunity for the State to save money over a 20- to 30-year lifecycle by building and owning DLOs rather than leasing. Further, the Department's current occupancy of the Capitol Annex building – identified as the highest priority renovation project in the Capitol Complex Master Plan – may not be the best long-term location for the Department's public-facing operations. With funding becoming available in FY 2019-20 in the Capitol Complex Master Plan Implementation Fund, the Statewide Planning Unit in the Office of the State Architect might be directed to initially focus their efforts on identifying a long-term location and plan for a consolidated Department of Revenue headquarters building or campus.

SUMMARY

- The Department requests \$3.2 million cash funds spending authority from the Licensing Services Cash Fund (LSCF) and 8.0 FTE in FY 2019-20, annualizing to \$954,000 and 8.0 FTE thereafter, to relocate the Driver's License Offices (DLOs) in Littleton, Parker, Boulder, and Longmont to more adequately serve the existing and growing customer base in those areas.
- The Department leases space for DLOs from private commercial property owners and there may be an opportunity for the State to save money over a 20- to 30-year lifecycle by building and owning DLOs rather than leasing.
- Funding will become available on July 1, 2019, in the Capitol Complex Master Plan Implementation Fund for Capitol Complex Master Plan capital construction projects.
- The Master Plan identifies the Capitol Annex building as the highest priority renovation project in the Capitol Complex.
- However, the Department's current occupancy of the Capitol Annex building may not be the best permanent or long-term location for the Department's public-facing operations due to limited and expensive public parking options in the Capitol Complex area.
- There appears to be an opportunity for consolidation of operations at a central Department headquarters or campus location. Such a consolidation may also provide an opportunity for cost savings over a 30- to 40-year lifecycle of such a building or campus in comparison to commercial lease rates paid over the same period.

DISCUSSION

THE DLO LEASED SPACE REQUEST

The Department's R5 request is for \$3.2 million cash funds spending authority from the Licensing Services Cash Fund (LSCF) and 8.0 FTE in FY 2019-20. The request annualizes to \$954,000 and 8.0 FTE thereafter.

The increase in leased space appropriations will be used to relocate the Driver's License Offices (DLOs) in Littleton, Parker, Boulder, and Longmont to more adequately serve the existing and growing customer base in those areas. Additionally, a portion of the request is also intended to cover increased lease cost for the existing Lamar DLO. The staff resource increases will place 3.0 FTE in Littleton, 2.0 FTE in Parker, 2.0 FTE in Longmont, and 1.0 FTE in Boulder.

The first-year cost for facility build-out is estimated at \$2.0 million. The first-year and ongoing leased space cost is estimated at \$311,000. The first-year and ongoing personal services appropriations for the staff resources are estimated at \$435,000. The first-year moving and operating expenses are estimated at \$386,000; the ongoing operating expenses are estimated at \$208,000.

The Department states that the LSCF has funding to sustain this request based on a five-year forecast analysis assuming no increases to the current fee structure.

Staff will analyze the specifics of the request for a figure setting recommendation. However, at this time, staff anticipates recommending approval of the request generally.

BUILD AND OWN OR LEASE

The Department operates 34 DLOs across the state, and typically includes a request for leased space renewals, increases, and improvements for 4 to 5 of the DLOs each year. The Department leases space for DLOs from private commercial property owners. The current, "just-in-time" lease process addresses leased space needs at the point of lease expiration or upon the recognition of an immediate need for space increase.

There may be an opportunity for the State to save money over a 20- to 30-year lifecycle by building and owning DLOs rather than leasing. Additionally, an intermediate-range planning process for DLOs would plan ahead of need with an expectation that the lowest cost option has been determined and vetted with enough time to pursue a construction project if such is determined to be the lowest lifecycle cost option.

The Committee, the Capital Development Committee, and the General Assembly may wish to direct that the Statewide Planning Unit in the Office of the State Architect prepare a lifecycle cost analysis for a selection of existing DLOs which may require a leased space adjustment in the next three to five years. Such an analysis could include the establishment of an intermediate-range planning methodology for establishing the lowest cost alternative for DLOs on a regular basis.

DEPARTMENT HEADQUARTERS BUILDING AND CAMPUS

Funding will become available on July 1, 2019, in the Capitol Complex Master Plan Implementation Fund (Fund) created in Section 24-75-307, C.R.S. Staff's understanding is that approximately \$6

million dollars will be deposited in the Fund for the purposes of implementing recommendations included in the Capitol Complex Master Plan (Master Plan).

The Master Plan identifies the Capitol Annex building as the highest ranked renovation project in the Capitol Complex. In the event that the Capitol Annex renovation project was considered as a top priority, the Department of Revenue operations located in the building would have to be moved and situated in a temporary space during renovation.

However, the Department's current occupancy of the Capitol Annex building may not be the best permanent or long-term location for the Department's public-facing operations due to limited and expensive public parking options in the Capitol Complex area. Additionally, the Department includes a variety of regulatory, public facing operations that are located in leased space across the metro area. There appears to be an opportunity for some consolidation of operations at a central Department headquarters or campus location. Such a consolidation may also provide an opportunity for cost savings over a 30- to 40-year lifecycle of such a building or campus in comparison to commercial lease rates paid over the same period.

It is staff's understanding that the Department of Transportation (CDOT) established criteria such as reasonable distance from the State Capitol, proximity to public transit access, proximity to highway access, and available space for public parking in selecting the location for its headquarters building. The Committee, the Capital Development Committee, and the General Assembly may wish to direct that the Statewide Planning Unit in the Office of the State Architect, as an update or addendum to the Master Plan, initially focus their efforts and resources available in the Fund on a lifecycle cost analysis and identifying potential locations for a consolidated Department of Revenue headquarters building or campus using similar criteria as were used in situating the CDOT headquarters building.

ISSUE: R3 AND R6 LOTTERY REQUESTS

The Department includes two requests for the Lottery. The Department seeks to replace its back-office, legacy IT system maintained by the Governor's Office of Information Technology (OIT) with access to a seamless IT system available from and hosted by the current gaming system vendor that would be paid on the basis of a percentage of total Lottery sales. Additionally, the Department seeks to lease 200 lottery vending machines to be located at Walmart Super Centers. Both items increase Lottery expenses by \$7.8 million in the first year, or approximately 7.7 percent on the Lottery's base appropriation, reducing net lottery proceeds to beneficiaries by the same amount. However, the Department projects that the additional vending machines may result in increased annual sales of \$29 to \$40 million.

SUMMARY

- The Department requests an increase in cash funds spending authority of \$2.2 million in FY 2019-20 and a decrease of 2.0 FTE for a replacement for its back-office IT system to be purchased from the Lottery's current gaming system vendor.
- The Department also requests an increase in cash funds spending authority of \$5.7 million in FY 2019-20, and \$2.3 million ongoing, to lease 200 lottery vending machines to be located at Walmart Super Centers.
- The Department states that the vendor fees for the back-office IT system are billed on overall sales revenue. The amount requested would provide spending authority for a high-sales year, projected at \$650 million, which is 120 percent of currently projected revenue. Currently projected revenue is \$540 million, which would cost approximately \$1.8 million at the identified 0.34 percent cost rate.
- Of the total request of \$5.7 million for vending machines, \$3.4 million is for one-time lease costs for the vending machines, \$1.3 million is for vendor fees, and \$1.0 million for an increase in spending authority for retailer compensation.
- The Department projects that the additional vending machines may result in increased annual sales of \$29 to \$40 million.

DISCUSSION

R3 LOTTERY BACK-OFFICE RESTRUCTURE

The Department's R3 request for a new Lottery back-office IT system totals \$2.2 million cash funds spending authority. The Department states that the current back-office IT system is a legacy system maintained by OIT and is reaching a critical stage that will require investments in hardware. Rather than continue to operate the current system, the Department proposes to replace the system with a back-office system available from the Lottery's gaming vendor.

This solution would be billed based on total sales revenue at a rate of 0.34 percent of sales. Total sales revenue for FY 2019-20 is projected at approximately \$540 million, which would entail a cost of \$1.8 million. The Department has estimated necessary spending authority at a "high-sales" projection of \$650 million.

STAFF RECOMMENDATION

Staff discussed this request with Joint Technology Committee (JTC) staff, and staff is in agreement that this IT system change and IT solution contract should be reviewed by the JTC. Although this IT system change is billed on a sales volume or "results" basis rather than a one-time development cost or annual maintenance contract cost, this system will cost approximately \$2 million per year and replaces an existing, OIT-managed system. Joint Rule 45 specifies that budget requests for information technology with a total project cost of \$500,000 or more are to be reviewed and prioritized by the JTC. Because of the annual contract payment based on sales, it is reasonable that this item would be located in the operating budget rather than the capital construction budget. Nevertheless, this IT system change request should be reviewed by the JTC.

The JTC is scheduled to meet next on December 13th, and after that will likely meet on January 11th. JTC staff can perform a technical review of this request and return a JTC recommendation to JBC staff in time for figure setting.

Staff recommends that the Committee refer this request item to the JTC for review.

R6 LOTTERY WALMART EXPANSION

The Department requests an increase in cash funds spending authority of \$5.7 million in FY 2019-20, annualizing to \$2.3 million after that. This request would fund the lease of 200 Gemini vending machines to be located at Walmart Super Centers. Of the total request of \$5.7 million for vending machines, \$3.4 million is for one-time lease costs for the vending machines, \$1.3 million is for vendor fees, and \$1.0 million for an increase in spending authority for retailer compensation.

The Department states that the request to place vending machines at Walmart Super Centers is not any different than the placement of similar vending machines at any other Lottery retailer in the State; there is no specific advantage provided to Walmart over other retailers in this action. The Department also states that the addition of Walmart Super Centers to the Lottery retail base will provide the Lottery with the potential to increase annual sales by \$29 to \$40 million.

Staff's initial thought is that the Walmart expansion would more likely simply replace sales that would otherwise be made at other Lottery retailers. However, the Department states that maximum market saturation is estimated at 1 retailer for every 1,200 eligible lottery players in the State. Currently, the Lottery has 1 retailer for approximately every 1,800 eligible players. On this basis, the Department and the Lottery believe that this expansion will expand Lottery sales and not simply replace current sales.

At this time, staff anticipates recommending that the Committee approve this request at figure setting.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
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DEPARTMENT OF REVENUE Michael Hartman, Executive Director

(1) EXECUTIVE DIRECTOR'S OFFICE

(A) Administration and Support

Personal Services	<u>8,861,412</u>	<u>8,569,946</u>	<u>9,634,991</u>	<u>10,333,335</u> *
FTE	119.1	124.1	126.1	132.3
General Fund	3,182,842	3,221,951	3,680,120	4,555,675
Cash Funds	264,381	146,908	497,691	520,542
Reappropriated Funds	5,414,189	5,201,087	5,457,180	5,257,118
Health, Life, and Dental	<u>10,731,918</u>	<u>11,848,685</u>	<u>12,699,520</u>	<u>12,833,278</u> *
General Fund	4,417,131	4,692,581	5,065,441	5,133,655
Cash Funds	6,297,694	7,132,434	7,615,882	7,571,552
Reappropriated Funds	17,093	23,670	18,197	33,568
Federal Funds	0	0	0	94,503
Short-term Disability	<u>137,294</u>	<u>144,085</u>	<u>137,500</u>	<u>145,098</u> *
General Fund	58,839	61,768	56,646	57,201
Cash Funds	78,292	82,147	80,688	86,426
Reappropriated Funds	163	170	166	257
Federal Funds	0	0	0	1,214

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
S.B. 04-257 Amortization Equalization Disbursement	<u>3,482,946</u>	<u>3,797,608</u>	<u>4,042,418</u>	<u>4,299,101</u>	*
General Fund	1,491,518	1,625,206	1,666,122	1,690,877	
Cash Funds	1,987,234	2,167,923	2,371,409	2,564,649	
Reappropriated Funds	4,194	4,479	4,887	7,628	
Federal Funds	0	0	0	35,947	
S.B. 06-235 Supplemental Amortization Equalization Disbursement	<u>3,446,668</u>	<u>3,797,608</u>	<u>4,042,418</u>	<u>4,299,101</u>	*
General Fund	1,475,982	1,625,206	1,666,122	1,690,877	
Cash Funds	1,966,535	2,167,923	2,371,409	2,564,649	
Reappropriated Funds	4,151	4,479	4,887	7,628	
Federal Funds	0	0	0	35,947	
PERA Direct Distribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,218,687</u>	
General Fund	0	0	0	850,875	
Cash Funds	0	0	0	1,345,119	
Reappropriated Funds	0	0	0	3,965	
Federal Funds	0	0	0	18,728	
Salary Survey	<u>326,822</u>	<u>1,444,882</u>	<u>2,582,782</u>	<u>28,227</u>	
General Fund	105,296	619,476	1,083,134	364	
Cash Funds	219,611	823,700	1,496,461	27,863	
Reappropriated Funds	1,915	1,706	3,187	0	
Merit Pay	<u>0</u>	<u>646,030</u>	<u>0</u>	<u>2,549,907</u>	
General Fund	0	268,996	0	1,060,062	
Cash Funds	0	376,166	0	1,463,678	
Reappropriated Funds	0	868	0	4,903	
Federal Funds	0	0	0	21,264	

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
Shift Differential	<u>124,573</u>	<u>130,712</u>	<u>126,584</u>	<u>114,613</u>	
General Fund	3,500	1,273	0	0	
Cash Funds	121,073	129,439	126,584	114,613	
Workers' Compensation	<u>1,053,760</u>	<u>985,589</u>	<u>1,085,724</u>	<u>939,970</u>	
General Fund	426,628	397,467	430,129	364,681	
Cash Funds	627,132	588,122	655,595	575,289	
Operating Expenses	<u>1,975,511</u>	<u>2,078,580</u>	<u>2,318,984</u>	<u>3,248,398</u>	*
General Fund	1,415,144	1,453,006	1,599,005	2,529,748	
Cash Funds	560,367	625,574	719,979	718,650	
Postage	<u>3,172,263</u>	<u>3,090,583</u>	<u>3,051,455</u>	<u>3,191,165</u>	*
General Fund	2,816,199	2,749,934	2,840,891	2,848,606	
Cash Funds	356,064	340,649	210,564	342,559	
Legal Services	<u>4,227,438</u>	<u>4,218,602</u>	<u>4,370,044</u>	<u>5,420,181</u>	
General Fund	2,318,090	2,558,122	2,627,857	3,287,468	
Cash Funds	1,909,348	1,660,480	1,742,187	2,132,713	
Administrative Law Judge Services	<u>9,077</u>	<u>11,303</u>	<u>4,158</u>	<u>2,099</u>	
Cash Funds	9,077	11,303	4,158	2,099	
Payment to Risk Management and Property Funds	<u>312,968</u>	<u>336,022</u>	<u>293,248</u>	<u>311,696</u>	
General Fund	126,926	135,510	116,175	120,931	
Cash Funds	186,042	200,512	177,073	190,765	

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
Vehicle Lease Payments	<u>540,940</u>	<u>566,934</u>	<u>669,802</u>	<u>660,767</u>	*
General Fund	140,720	135,490	168,466	162,795	
Cash Funds	400,220	431,444	501,336	497,972	
Leased Space	<u>3,850,674</u>	<u>4,199,785</u>	<u>5,238,528</u>	<u>8,145,860</u>	*
General Fund	596,242	631,879	835,024	1,139,228	
Cash Funds	3,254,432	3,567,906	4,403,504	7,006,632	
Capitol Complex Leased Space	<u>2,315,184</u>	<u>2,555,249</u>	<u>2,330,327</u>	<u>2,106,943</u>	
General Fund	1,537,840	1,701,570	1,649,646	1,454,393	
Cash Funds	777,344	853,679	680,681	652,550	
Payments to OIT	<u>15,567,279</u>	<u>19,125,207</u>	<u>15,798,988</u>	<u>14,834,268</u>	*
General Fund	8,026,495	11,155,787	10,388,686	9,932,694	
Cash Funds	7,540,784	7,969,420	5,410,302	4,901,574	
Reappropriated Funds	0	0	0	0	
CORE Operations	<u>422,525</u>	<u>718,378</u>	<u>902,422</u>	<u>831,281</u>	
General Fund	171,064	289,707	357,507	322,513	
Cash Funds	251,461	428,671	544,915	508,768	
Utilities	<u>78,443</u>	<u>77,565</u>	<u>143,703</u>	<u>143,703</u>	
Cash Funds	78,443	77,565	143,703	143,703	
SUBTOTAL - (A) Administration and Support	60,637,695	68,343,353	69,473,596	76,657,678	10.3%
FTE	<u>119.1</u>	<u>124.1</u>	<u>126.1</u>	<u>132.3</u>	4.9%
General Fund	28,310,456	33,324,929	34,230,971	37,202,643	8.7%
Cash Funds	26,885,534	29,781,965	29,754,121	33,932,365	14.0%
Reappropriated Funds	5,441,705	5,236,459	5,488,504	5,315,067	(3.2%)
Federal Funds	0	0	0	207,603	0.0%

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
(B) Hearings Division					
Personal Services	<u>1,953,428</u>	<u>1,940,796</u>	<u>2,227,978</u>	<u>2,229,903</u>	
FTE	26.6	29.6	29.6	29.6	
General Fund	0	0	0	0	
Cash Funds	1,953,428	1,940,796	2,227,978	2,229,903	
Operating Expenses	<u>59,680</u>	<u>83,891</u>	<u>95,457</u>	<u>95,457</u>	
General Fund	0	0	0	0	
Cash Funds	59,680	83,891	95,457	95,457	
Indirect Cost Assessment	<u>164,491</u>	<u>167,930</u>	<u>175,174</u>	<u>188,991</u>	
Cash Funds	164,491	167,930	175,174	188,991	
SUBTOTAL - (B) Hearings Division	2,177,599	2,192,617	2,498,609	2,514,351	0.6%
FTE	<u>26.6</u>	<u>29.6</u>	<u>29.6</u>	<u>29.6</u>	0.0%
General Fund	0	0	0	0	0.0%
Cash Funds	2,177,599	2,192,617	2,498,609	2,514,351	0.6%
TOTAL - (1) Executive Director's Office	62,815,294	70,535,970	71,972,205	79,172,029	10.0%
FTE	<u>145.7</u>	<u>153.7</u>	<u>155.7</u>	<u>161.9</u>	4.0%
General Fund	28,310,456	33,324,929	34,230,971	37,202,643	8.7%
Cash Funds	29,063,133	31,974,582	32,252,730	36,446,716	13.0%
Reappropriated Funds	5,441,705	5,236,459	5,488,504	5,315,067	(3.2%)
Federal Funds	0	0	0	207,603	0.0%

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
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(2) INFORMATION TECHNOLOGY DIVISION

(A) System Support

Personal Services	<u>130,684</u>	<u>46,805</u>	<u>100,000</u>	<u>100,000</u>	
General Fund	130,684	46,805	100,000	100,000	
Operating Expenses	<u>858,667</u>	<u>1,341,898</u>	<u>1,516,490</u>	<u>1,516,490</u>	
General Fund	783,117	951,881	1,109,976	1,109,976	
Cash Funds	75,550	390,017	406,514	406,514	

SUBTOTAL - (A) System Support	989,351	1,388,703	1,616,490	1,616,490	0.0%
FTE	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	0.0%
General Fund	913,801	998,686	1,209,976	1,209,976	0.0%
Cash Funds	75,550	390,017	406,514	406,514	0.0%

(B) DMV IT System (DRIVES) Support

Operating Expenses	<u>2,285,867</u>	<u>2,377,792</u>	<u>2,680,535</u>	<u>2,617,535</u>	
Cash Funds	2,285,867	2,377,792	2,617,535	2,617,535	
Reappropriated Funds	0	0	63,000	0	
County Office Asset Maintenance	<u>532,342</u>	<u>474,334</u>	<u>568,230</u>	<u>568,230</u>	
Cash Funds	532,342	474,334	568,230	568,230	
County Office Improvements	<u>18,443</u>	<u>26,285</u>	<u>40,000</u>	<u>40,000</u>	
Cash Funds	18,443	26,285	40,000	40,000	
Personal Services	<u>0</u>	<u>48,963</u>	<u>0</u>	<u>0</u>	
Cash Funds	0	48,963	0	0	

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
SUBTOTAL - (B) DMV IT System (DRIVES) Support	2,836,652	2,927,374	3,288,765	3,225,765	(1.9%)
<i>FTE</i>	0.0	0.0	0.0	0.0	0.0%
Cash Funds	2,836,652	2,927,374	3,225,765	3,225,765	0.0%
Reappropriated Funds	0	0	63,000	0	(100.0%)
TOTAL - (2) Information Technology Division	3,826,003	4,316,077	4,905,255	4,842,255	(1.3%)
<i>FTE</i>	0.0	0.0	0.0	0.0	0.0%
General Fund	913,801	998,686	1,209,976	1,209,976	0.0%
Cash Funds	2,912,202	3,317,391	3,632,279	3,632,279	0.0%
Reappropriated Funds	0	0	63,000	0	(100.0%)

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
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(3) TAXATION BUSINESS GROUP

(A) Administration

Personal Services	<u>412,638</u>	<u>477,425</u>	<u>540,557</u>	<u>554,744</u>	
FTE	4.1	5.0	5.0	5.0	
General Fund	389,144	452,682	512,427	525,785	
Cash Funds	23,494	24,743	28,130	28,959	
Operating Expenses	<u>6,341</u>	<u>12,228</u>	<u>12,543</u>	<u>12,543</u>	
General Fund	6,341	12,228	12,543	12,543	
Tax Administration IT System (GenTax) Support	<u>4,583,432</u>	<u>5,438,748</u>	<u>5,731,642</u>	<u>6,085,460</u>	
General Fund	4,583,432	5,438,748	5,707,610	5,895,460	
Cash Funds	0	0	24,032	190,000	

SUBTOTAL - (A) Administration	5,002,411	5,928,401	6,284,742	6,652,747	5.9%
FTE	<u>4.1</u>	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>	0.0%
General Fund	4,978,917	5,903,658	6,232,580	6,433,788	3.2%
Cash Funds	23,494	24,743	52,162	218,959	319.8%

(B) Taxation and Compliance Division

Personal Expenses	<u>15,083,887</u>	<u>15,721,117</u>	<u>17,802,873</u>	<u>18,484,386</u>	
FTE	218.7	234.6	234.9	235.3	
General Fund	14,435,050	15,167,729	16,561,335	17,202,960	
Cash Funds	508,919	413,268	1,087,453	1,127,341	
Reappropriated Funds	139,918	140,120	154,085	154,085	

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
Operating Expenses	<u>991,890</u>	<u>1,032,518</u>	<u>1,030,030</u>	<u>1,074,072</u>	
General Fund	976,239	1,028,717	1,005,834	1,049,876	
Cash Funds	15,651	3,801	24,196	24,196	
Joint Audit Program	<u>131,244</u>	<u>131,244</u>	<u>131,244</u>	<u>131,244</u>	
General Fund	131,244	131,244	131,244	131,244	
Mineral Audit Program	<u>826,290</u>	<u>834,701</u>	<u>890,388</u>	<u>890,388</u>	
FTE	10.0	10.2	10.2	10.2	
Reappropriated Funds	1,902	10,313	66,000	66,000	
Federal Funds	824,388	824,388	824,388	824,388	
SUBTOTAL - (B) Taxation and Compliance Division	17,033,311	17,719,580	19,854,535	20,580,090	3.7%
FTE	<u>228.7</u>	<u>244.8</u>	<u>245.1</u>	<u>245.5</u>	0.2%
General Fund	15,542,533	16,327,690	17,698,413	18,384,080	3.9%
Cash Funds	524,570	417,069	1,111,649	1,151,537	3.6%
Reappropriated Funds	141,820	150,433	220,085	220,085	0.0%
Federal Funds	824,388	824,388	824,388	824,388	0.0%

(C) Taxpayer Service Division

Personal Services	<u>8,347,680</u>	<u>8,350,998</u>	<u>8,616,529</u>	<u>9,757,628</u> *
FTE	129.3	137.6	137.6	154.5
General Fund	8,111,050	8,119,068	8,304,362	9,355,128
Cash Funds	236,630	231,930	312,167	402,500
Operating Expenses	<u>478,848</u>	<u>497,568</u>	<u>508,769</u>	<u>546,434</u> *
General Fund	475,319	493,606	504,686	532,366
Cash Funds	3,529	3,962	4,083	14,068

* Line item includes a decision item.

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	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
Seasonal Tax Processing	<u>292,629</u>	<u>396,376</u>	<u>296,391</u>	<u>296,391</u>	
General Fund	292,629	396,376	296,391	296,391	
Document Management	<u>3,006,852</u>	<u>3,785,238</u>	<u>4,321,455</u>	<u>4,339,348</u>	
General Fund	3,000,622	3,785,238	4,282,936	4,300,829	
Cash Funds	6,230	0	38,519	38,519	
Fuel Tracking System	<u>481,136</u>	<u>454,915</u>	<u>497,442</u>	<u>497,481</u>	
FTE	1.5	1.5	1.5	1.5	
Cash Funds	481,136	454,915	497,442	497,481	
Indirect Cost Assessment	<u>9,134</u>	<u>9,334</u>	<u>9,724</u>	<u>9,611</u>	
Cash Funds	9,134	9,334	9,724	9,611	
SUBTOTAL - (C) Taxpayer Service Division	12,616,279	13,494,429	14,250,310	15,446,893	8.4%
FTE	<u>130.8</u>	<u>139.1</u>	<u>139.1</u>	<u>156.0</u>	<u>12.1%</u>
General Fund	11,879,620	12,794,288	13,388,375	14,484,714	8.2%
Cash Funds	736,659	700,141	861,935	962,179	11.6%

(D) Tax Conferee

Personal Services	<u>1,165,030</u>	<u>1,367,273</u>	<u>1,714,139</u>	<u>1,740,379</u>	
FTE	11.8	13.6	13.6	13.6	
General Fund	1,165,030	1,367,273	1,616,856	1,643,096	
Reappropriated Funds	0	0	97,283	97,283	
Operating Expenses	<u>35,877</u>	<u>47,666</u>	<u>60,905</u>	<u>60,905</u>	
General Fund	35,877	47,666	60,905	60,905	

* Line item includes a decision item.

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	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
SUBTOTAL - (D) Tax Conferee	1,200,907	1,414,939	1,775,044	1,801,284	1.5%
<i>FTE</i>	<u>11.8</u>	<u>13.6</u>	<u>13.6</u>	<u>13.6</u>	0.0%
General Fund	1,200,907	1,414,939	1,677,761	1,704,001	1.6%
Reappropriated Funds	0	0	97,283	97,283	0.0%

(E) Special Purpose

Cigarette Tax Rebate	<u>10,308,809</u>	<u>9,732,856</u>	<u>8,141,834</u>	<u>7,327,016</u>	
General Fund	10,308,809	9,732,856	8,141,834	7,327,016	
Amendment 35 Distribution to Local Governments	<u>1,288,332</u>	<u>1,239,276</u>	<u>1,289,727</u>	<u>1,160,000</u>	
Cash Funds	1,288,332	1,239,276	1,289,727	1,160,000	
Old Age Heat and Fuel and Property Tax Assistance Grant	<u>6,679,191</u>	<u>4,907,528</u>	<u>5,634,000</u>	<u>5,584,000</u>	
General Fund	6,679,191	4,907,528	5,634,000	5,584,000	
Commercial Vehicle Enterprise Sales Tax Refund	<u>0</u>	<u>204,423</u>	<u>120,524</u>	<u>120,524</u>	
Cash Funds	0	204,423	120,524	120,524	
Retail Marijuana Sales Tax Distribution to Local Governments	<u>14,349,488</u>	<u>18,537,979</u>	<u>20,336,822</u>	<u>18,768,800</u>	
General Fund	14,349,488	18,537,979	20,336,822	18,768,800	
SUBTOTAL - (E) Special Purpose	32,625,820	34,622,062	35,522,907	32,960,340	(7.2%)
<i>FTE</i>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	0.0%
General Fund	31,337,488	33,178,363	34,112,656	31,679,816	(7.1%)
Cash Funds	1,288,332	1,443,699	1,410,251	1,280,524	(9.2%)

* Line item includes a decision item.

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	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
TOTAL - (3) Taxation Business Group	68,478,728	73,179,411	77,687,538	77,441,354	(0.3%)
<i>FTE</i>	<u>375.4</u>	<u>402.5</u>	<u>402.8</u>	<u>420.1</u>	<u>4.3%</u>
General Fund	64,939,465	69,618,938	73,109,785	72,686,399	(0.6%)
Cash Funds	2,573,055	2,585,652	3,435,997	3,613,199	5.2%
Reappropriated Funds	141,820	150,433	317,368	317,368	0.0%
Federal Funds	824,388	824,388	824,388	824,388	0.0%

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
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(4) DIVISION OF MOTOR VEHICLES

(A) Administration

Personal Services	<u>1,402,610</u>	<u>1,495,170</u>	<u>2,586,977</u>	<u>2,621,181</u>	
FTE	16.8	18.9	32.9	32.9	
General Fund	234,776	234,707	231,797	369,059	
Cash Funds	1,121,876	1,209,118	2,303,835	2,200,777	
Reappropriated Funds	45,958	51,345	51,345	51,345	
Operating Expenses	<u>78,387</u>	<u>72,666</u>	<u>458,200</u>	<u>440,980</u>	
General Fund	12,478	12,475	11,711	65,317	
Cash Funds	62,810	56,801	443,099	372,273	
Reappropriated Funds	3,099	3,390	3,390	3,390	
DRIVES Maintenance and Support	<u>0</u>	<u>0</u>	<u>2,600,000</u>	<u>6,578,868</u>	*
Cash Funds	0	0	2,600,000	6,578,868	
Reappropriated Funds	0	0	0	0	

SUBTOTAL - (A) Administration	1,480,997	1,567,836	5,645,177	9,641,029	70.8%
FTE	16.8	18.9	32.9	32.9	0.0%
General Fund	247,254	247,182	243,508	434,376	78.4%
Cash Funds	1,184,686	1,265,919	5,346,934	9,151,918	71.2%
Reappropriated Funds	49,057	54,735	54,735	54,735	0.0%

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
(B) Driver Services					
Personal Services	<u>19,118,430</u>	<u>19,969,153</u>	<u>21,810,867</u>	<u>23,026,219</u>	*
FTE	416.7	399.1	410.0	419.5	
General Fund	3,031,041	3,064,873	3,151,293	3,264,481	
Cash Funds	16,004,110	16,863,238	18,546,008	19,644,985	
Reappropriated Funds	83,279	41,042	113,566	116,753	
Operating Expenses	<u>2,074,558</u>	<u>3,080,984</u>	<u>2,581,673</u>	<u>2,785,664</u>	*
General Fund	418,104	418,104	411,155	411,155	
Cash Funds	1,653,292	2,660,449	2,160,348	2,364,339	
Reappropriated Funds	3,162	2,431	10,170	10,170	
Drivers License Documents	<u>5,985,311</u>	<u>5,696,473</u>	<u>6,571,858</u>	<u>7,779,730</u>	*
Cash Funds	5,985,311	5,696,473	6,571,858	7,779,730	
Ignition Interlock Program	<u>848,488</u>	<u>696,001</u>	<u>1,240,450</u>	<u>1,252,754</u>	
FTE	5.8	6.9	6.9	6.9	
Cash Funds	848,488	696,001	1,240,450	1,252,754	
Indirect Cost Assessment	<u>2,137,541</u>	<u>2,183,128</u>	<u>2,289,223</u>	<u>2,419,604</u>	
Cash Funds	2,137,541	2,183,128	2,289,223	2,419,604	
SUBTOTAL - (B) Driver Services	30,164,328	31,625,739	34,494,071	37,263,971	8.0%
FTE	<u>422.5</u>	<u>406.0</u>	<u>416.9</u>	<u>426.4</u>	<u>2.3%</u>
General Fund	3,449,145	3,482,977	3,562,448	3,675,636	3.2%
Cash Funds	26,628,742	28,099,289	30,807,887	33,461,412	8.6%
Reappropriated Funds	86,441	43,473	123,736	126,923	2.6%

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
(C) Vehicle Services					
Personal Services	<u>2,349,120</u>	<u>2,454,053</u>	<u>3,031,998</u>	<u>3,122,528</u>	
FTE	45.8	50.0	55.0	55.0	
General Fund	453,247	453,247	466,605	483,164	
Cash Funds	1,895,873	2,000,806	2,565,393	2,639,364	
Operating Expenses	<u>448,144</u>	<u>385,101</u>	<u>492,392</u>	<u>458,752</u>	
General Fund	27,169	27,169	36,282	26,157	
Cash Funds	420,975	357,932	456,110	432,595	
License Plate Ordering	<u>8,343,789</u>	<u>10,177,105</u>	<u>10,218,242</u>	<u>10,209,461</u>	
General Fund	209,000	216,315	226,185	216,315	
Cash Funds	8,134,789	9,960,790	9,992,057	9,993,146	
Motorist Insurance Identification Database Program	<u>182,104</u>	<u>183,702</u>	<u>338,255</u>	<u>339,992</u>	
FTE	1.0	1.0	1.0	1.0	
Cash Funds	182,104	183,702	338,255	339,992	
Emissions Program	<u>1,082,192</u>	<u>1,086,188</u>	<u>1,275,174</u>	<u>1,301,954</u>	
FTE	13.8	15.0	15.0	15.0	
Cash Funds	1,082,192	1,086,188	1,275,174	1,301,954	
Indirect Cost Assessment	<u>354,937</u>	<u>368,088</u>	<u>382,961</u>	<u>429,074</u>	
Cash Funds	354,937	368,088	382,961	429,074	
SUBTOTAL - (C) Vehicle Services	12,760,286	14,654,237	15,739,022	15,861,761	0.8%
FTE	<u>60.6</u>	<u>66.0</u>	<u>71.0</u>	<u>71.0</u>	0.0%
General Fund	689,416	696,731	729,072	725,636	(0.5%)
Cash Funds	12,070,870	13,957,506	15,009,950	15,136,125	0.8%

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
TOTAL - (4) Division of Motor Vehicles	44,405,611	47,847,812	55,878,270	62,766,761	12.3%
<i>FTE</i>	<u>499.9</u>	<u>490.9</u>	<u>520.8</u>	<u>530.3</u>	<u>1.8%</u>
General Fund	4,385,815	4,426,890	4,535,028	4,835,648	6.6%
Cash Funds	39,884,298	43,322,714	51,164,771	57,749,455	12.9%
Reappropriated Funds	135,498	98,208	178,471	181,658	1.8%

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
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(5) ENFORCEMENT BUSINESS GROUP

(A) Administration

Personal Services	<u>646,901</u>	<u>668,335</u>	<u>980,001</u>	<u>994,304</u>	
FTE	7.1	8.0	10.0	10.0	
General Fund	5,108	4,865	7,407	7,524	
Cash Funds	375,264	425,598	642,965	657,151	
Reappropriated Funds	266,529	237,872	329,629	329,629	
Operating Expenses	<u>8,274</u>	<u>11,310</u>	<u>14,680</u>	<u>14,680</u>	
General Fund	69	85	111	111	
Cash Funds	4,853	7,275	9,631	9,631	
Reappropriated Funds	3,352	3,950	4,938	4,938	

SUBTOTAL - (A) Administration	655,175	679,645	994,681	1,008,984	1.4%
FTE	<u>7.1</u>	<u>8.0</u>	<u>10.0</u>	<u>10.0</u>	0.0%
General Fund	5,177	4,950	7,518	7,635	1.6%
Cash Funds	380,117	432,873	652,596	666,782	2.2%
Reappropriated Funds	269,881	241,822	334,567	334,567	0.0%

(B) Limited Gaming Division

Personal Services	<u>6,564,135</u>	<u>6,194,217</u>	<u>6,937,637</u>	<u>7,523,800</u>	
FTE	83.0	91.0	89.0	90.0	
Cash Funds	6,564,135	6,194,217	6,937,637	7,523,800	
Operating Expenses	<u>593,262</u>	<u>685,257</u>	<u>1,022,457</u>	<u>1,028,110</u>	
Cash Funds	593,262	685,257	1,022,457	1,028,110	

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
Payments to Other State Agencies	<u>4,382,568</u>	<u>4,654,288</u>	<u>4,497,011</u>	<u>4,936,279</u>	
Cash Funds	4,382,568	4,654,288	4,497,011	4,936,279	
Distribution to Gaming Cities and Counties	<u>104,071,668</u>	<u>111,598,539</u>	<u>23,788,902</u>	<u>23,788,902</u>	
Cash Funds	104,071,668	111,598,539	23,788,902	23,788,902	
Indirect Cost Assessment	<u>834,076</u>	<u>812,715</u>	<u>583,285</u>	<u>578,358</u>	
Cash Funds	834,076	812,715	583,285	578,358	
SUBTOTAL - (B) Limited Gaming Division	116,445,709	123,945,016	36,829,292	37,855,449	2.8%
FTE	83.0	91.0	89.0	90.0	1.1%
Cash Funds	116,445,709	123,945,016	36,829,292	37,855,449	2.8%

(C) Liquor and Tobacco Enforcement Division

Personal Services	<u>2,104,366</u>	<u>2,386,162</u>	<u>2,765,679</u>	<u>2,816,566</u>	
FTE	26.7	30.0	32.5	32.5	
General Fund	93,587	132,315	171,607	175,349	
Cash Funds	2,010,779	2,253,847	2,594,072	2,641,217	
Operating Expenses	<u>98,599</u>	<u>107,474</u>	<u>170,812</u>	<u>155,028</u>	
General Fund	4,808	6,984	6,965	6,965	
Cash Funds	93,791	100,490	163,847	148,063	
Indirect Cost Assessment	<u>155,330</u>	<u>178,175</u>	<u>195,180</u>	<u>198,942</u>	
Cash Funds	155,330	178,175	195,180	198,942	

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
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SUBTOTAL - (C) Liquor and Tobacco Enforcement					
Division	2,358,295	2,671,811	3,131,671	3,170,536	1.2%
<i>FTE</i>	<u>26.7</u>	<u>30.0</u>	<u>32.5</u>	<u>32.5</u>	0.0%
General Fund	98,395	139,299	178,572	182,314	2.1%
Cash Funds	2,259,900	2,532,512	2,953,099	2,988,222	1.2%

(D) Division of Racing Events

Personal Services	<u>822,518</u>	<u>835,606</u>	<u>936,329</u>	<u>950,081</u>	
<i>FTE</i>	<u>6.7</u>	<u>7.7</u>	<u>7.7</u>	<u>7.7</u>	
Cash Funds	822,518	835,606	936,329	950,081	
Operating Expenses	<u>209,427</u>	<u>198,123</u>	<u>220,721</u>	<u>220,721</u>	
Cash Funds	209,427	198,123	220,721	220,721	
Purses and Breeders Awards	<u>1,362,526</u>	<u>1,344,012</u>	<u>1,400,000</u>	<u>1,400,000</u>	
Cash Funds	1,362,526	1,344,012	1,400,000	1,400,000	
Indirect Cost Assessment	<u>47,312</u>	<u>48,306</u>	<u>50,615</u>	<u>50,038</u>	
Cash Funds	47,312	48,306	50,615	50,038	
SUBTOTAL - (D) Division of Racing Events					
	2,441,783	2,426,047	2,607,665	2,620,840	0.5%
<i>FTE</i>	<u>6.7</u>	<u>7.7</u>	<u>7.7</u>	<u>7.7</u>	0.0%
Cash Funds	2,441,783	2,426,047	2,607,665	2,620,840	0.5%

(E) Hearings Division

Personal Services	<u>1,953,428</u>				
<i>FTE</i>	<u>26.6</u>				
Cash Funds	1,953,428				

* Line item includes a decision item.

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	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
Operating Expenses	<u>59,680</u>				
Cash Funds	59,680				
Indirect Cost Assessment	<u>164,491</u>				
Cash Funds	164,491				
SUBTOTAL - (E) Hearings Division	2,177,599	0.0%			
FTE	<u>26.6</u>	<u>0.0%</u>			
Cash Funds	2,177,599	0.0%			
(F) Motor Vehicle Dealer Licensing Board					
Personal Services	<u>1,860,566</u>	<u>2,078,284</u>	<u>2,338,324</u>	<u>2,395,937</u>	
FTE	27.6	32.3	32.3	32.3	
Cash Funds	1,860,566	2,078,284	2,338,324	2,395,937	
Operating Expenses	<u>132,981</u>	<u>194,141</u>	<u>138,691</u>	<u>138,691</u>	
Cash Funds	132,981	194,141	138,691	138,691	
Indirect Cost Assessment	<u>167,130</u>	<u>170,640</u>	<u>216,746</u>	<u>209,900</u>	
Cash Funds	167,130	170,640	216,746	209,900	
SUBTOTAL - (F) Motor Vehicle Dealer Licensing Board	2,160,677	2,443,065	2,693,761	2,744,528	1.9%
FTE	<u>27.6</u>	<u>32.3</u>	<u>32.3</u>	<u>32.3</u>	<u>0.0%</u>
Cash Funds	2,160,677	2,443,065	2,693,761	2,744,528	1.9%

* Line item includes a decision item.

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	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
(G) Marijuana Enforcement					
Marijuana Enforcement	<u>7,624,483</u>	<u>19,250,162</u>	<u>10,012,073</u>	<u>12,147,359</u> *	
FTE	<u>77.4</u>	<u>104.0</u>	<u>104.1</u>	<u>112.1</u>	
Cash Funds	<u>7,624,483</u>	<u>19,250,162</u>	<u>10,012,073</u>	<u>12,147,359</u>	
Indirect Cost Assessment	<u>1,111,282</u>	<u>785,853</u>	<u>805,778</u>	<u>797,080</u>	
Cash Funds	<u>1,111,282</u>	<u>785,853</u>	<u>805,778</u>	<u>797,080</u>	
SUBTOTAL - (G) Marijuana Enforcement	8,735,765	20,036,015	10,817,851	12,944,439	19.7%
FTE	<u>77.4</u>	<u>104.0</u>	<u>104.1</u>	<u>112.1</u>	7.7%
Cash Funds	<u>8,735,765</u>	<u>20,036,015</u>	<u>10,817,851</u>	<u>12,944,439</u>	19.7%
TOTAL - (5) Enforcement Business Group	134,975,003	152,201,599	57,074,921	60,344,776	5.7%
FTE	<u>255.1</u>	<u>273.0</u>	<u>275.6</u>	<u>284.6</u>	3.3%
General Fund	<u>103,572</u>	<u>144,249</u>	<u>186,090</u>	<u>189,949</u>	2.1%
Cash Funds	<u>134,601,550</u>	<u>151,815,528</u>	<u>56,554,264</u>	<u>59,820,260</u>	5.8%
Reappropriated Funds	<u>269,881</u>	<u>241,822</u>	<u>334,567</u>	<u>334,567</u>	0.0%

* Line item includes a decision item.

Appendix A: Number Pages

	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
(6) STATE LOTTERY DIVISION					
Personal Services	<u>7,956,300</u>	<u>8,602,404</u>	<u>9,651,554</u>	<u>8,696,656</u>	*
FTE	111.1	117.1	117.1	102.1	
Cash Funds	7,956,300	8,602,404	9,651,554	8,696,656	
Operating Expenses	<u>1,011,208</u>	<u>993,406</u>	<u>1,189,385</u>	<u>1,177,035</u>	*
Cash Funds	1,011,208	993,406	1,189,385	1,177,035	
Payments to Other State Agencies	<u>85,530</u>	<u>84,324</u>	<u>239,410</u>	<u>239,410</u>	
Cash Funds	85,530	84,324	239,410	239,410	
Travel	<u>96,939</u>	<u>82,057</u>	<u>113,498</u>	<u>113,498</u>	
Cash Funds	96,939	82,057	113,498	113,498	
Marketing and Communications	<u>13,634,185</u>	<u>13,539,964</u>	<u>14,700,000</u>	<u>14,700,000</u>	
Cash Funds	13,634,185	13,539,964	14,700,000	14,700,000	
Multi-State Lottery Fees	<u>119,397</u>	<u>127,308</u>	<u>177,433</u>	<u>177,433</u>	
Cash Funds	119,397	127,308	177,433	177,433	
Vendor Fees	<u>10,029,041</u>	<u>11,392,105</u>	<u>14,269,479</u>	<u>21,314,629</u>	*
Cash Funds	10,029,041	11,392,105	14,269,479	21,314,629	
Retailer Compensation	<u>40,759,281</u>	<u>46,153,182</u>	<u>54,572,160</u>	<u>55,593,160</u>	*
Cash Funds	40,759,281	46,153,182	54,572,160	55,593,160	
Ticket Costs	<u>3,915,189</u>	<u>3,701,312</u>	<u>6,578,000</u>	<u>6,578,000</u>	
Cash Funds	3,915,189	3,701,312	6,578,000	6,578,000	

* Line item includes a decision item.

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	FY 2016-17 Actual	FY 2017-18 Actual	FY 2018-19 Appropriation	FY 2019-20 Request	Request vs. Appropriation
Research	<u>0</u>	<u>57,904</u>	<u>250,000</u>	<u>250,000</u>	
Cash Funds	0	57,904	250,000	250,000	
Indirect Cost Assessment	<u>702,837</u>	<u>718,738</u>	<u>748,494</u>	<u>739,928</u>	
Cash Funds	702,837	718,738	748,494	739,928	
TOTAL - (6) State Lottery Division	78,309,907	85,452,704	102,489,413	109,579,749	6.9%
FTE	<u>111.1</u>	<u>117.1</u>	<u>117.1</u>	<u>102.1</u>	(12.8%)
Cash Funds	78,309,907	85,452,704	102,489,413	109,579,749	6.9%
TOTAL - Department of Revenue	392,810,546	433,533,573	370,007,602	394,146,924	6.5%
FTE	<u>1,387.2</u>	<u>1,437.2</u>	<u>1,472.0</u>	<u>1,499.0</u>	1.8%
General Fund	98,653,109	108,513,692	113,271,850	116,124,615	2.5%
Cash Funds	287,344,145	318,468,571	249,529,454	270,841,658	8.5%
Reappropriated Funds	5,988,904	5,726,922	6,381,910	6,148,660	(3.7%)
Federal Funds	824,388	824,388	824,388	1,031,991	25.2%

* Line item includes a decision item.

APPENDIX B

RECENT LEGISLATION AFFECTING DEPARTMENT BUDGET

2017 SESSION BILLS

S.B. 17-169 (SUPPLEMENTAL BILL): Modifies FY 2016-17 appropriations to the Department.

S.B. 17-187 (RESIDENCY EXEMPTION FOR MARIJUANA EDUCATION-BASED OCCUPATION): Authorizes the Marijuana Enforcement Division (MED) to exempt from the medical or retail marijuana occupational license residency requirement for up to two years someone who is participating in a marijuana-based education program that is designed to train individuals to work in the legal marijuana industry. Includes penalties for individuals who participate in the program but commit perjury by attesting they work in the field when they do not. In FY 2017-18, appropriates \$1,159 from the Marijuana Cash Fund to the MED and reappropriates \$1,159 from the Department of Revenue to the Department of Public Safety to perform the required background checks.

S.B. 17-192 (MARIJUANA BUSINESS EFFICIENCY MEASURES): Allows for a single-instance transfer of retail marijuana and retail marijuana products from a retail marijuana licensee to a medical marijuana licensee, changes the provisions for calculating the average market rate, and creates a contract price to use when calculating excise taxes between unaffiliated retail marijuana businesses. Also clarifies that the Marijuana Enforcement Division in the Department of Revenue can take action against a licensee upon a violation of law whether the license active, expired, or surrendered. For FY 2017-18, appropriates \$69,058 total funds, including \$9,600 General Fund, to the Department of Revenue.

S.B. 17-240 (SUNSET MOTOR VEHICLE DEALERS SALES): Continues the Motor Vehicle Dealer Board and the regulation of powersports vehicle sales through September 1, 2027. Implements some of the recommendations from the Department of Regulatory Agencies' sunset report, including:

- Requiring a fingerprint-based criminal history background check for all licensees;
- Requiring an additional license for any new ownership interest in a licensed entity;
- Subjecting a principle dealer license to discipline when he or she violates the laws governing salespeople by acting as a salesperson;
- Requiring people who have had licenses revoked to wait one year before applying for a new license; and
- Codifying the Auto Industry Division (AID) as a Type 2 transfer under the Department of Revenue (DOR) and making administrative updates.

For FY 2017-18, appropriates \$175,551 cash funds to the Departments of Public Safety and Revenue. Of this amount, \$162,983 is from the Colorado Bureau of Investigation Identification Unit Fund and appropriated to the Department of Public Safety, and \$12,568 is from the Auto Dealers License Fund and appropriated to the Department of Revenue.

S.B. 17-254 (LONG BILL): General appropriations act for FY 2017-18.

S.B. 17-267 (SUSTAINABILITY OF RURAL COLORADO): This summary applies specifically to the Department of Revenue. See Part III of the Department of Health Care Policy and Financing and Appendix J for more detailed information on this bill. The bill:

- Specifies that reimbursements to local governments from the state for property tax exemptions for qualifying seniors and disabled veterans are a TABOR refund mechanism in years when a refund is required;
- Increases the rate of retail marijuana sales tax (currently 10 percent and scheduled to decrease under current law to 8 percent) to 15 percent effective July 1, 2017;
 - Offsets a portion of the state retail marijuana sales tax rate increase by exempting retail sales of marijuana upon which the state retail marijuana sales tax is imposed from the 2.9 percent general state sales tax, but provides that local governments can continue to impose their local general sales taxes on retail sales of marijuana;
 - Holds local governments that currently receive an allocation of 15 percent of state retail marijuana sales tax revenue based on the current tax rate of 10 percent harmless by specifying that on and after July 1, 2017, they receive an allocation of 10 percent of state retail marijuana sales tax revenue based on the new rate of 15 percent;
 - Of the 90 percent of the state retail marijuana sales tax revenue that the state retains for FY 2017-18:
 - 28.15 percent less \$30 million stays in the general fund
 - 71.85 percent is credited to the marijuana tax cash fund
 - \$30 million is credited to the state public school fund and distributed to rural school districts
 - Of the 90 percent of the state retail marijuana sales tax revenue that the state retains for FY 2018-19:
 - 15.56 percent stays in the general fund
 - 71.85 percent is credited to the marijuana tax cash fund
 - 12.59 percent is credited to the state public school fund for the state share of total program
- Requires state departments, other than the departments of Education and Transportation, to submit budget requests to the Office of State Planning and Budgeting (OSPB) that are at least 2.0 percent lower than the FY 2017-18 budget, and requires OSPB to seek to ensure that the budget submitted to the legislature for FY 2018-19 is at least 2.0 percent lower than FY 2017-18
- Replaces an existing temporary income tax credit for business personal property taxes with a more generous permanent income tax credit for business personal property taxes paid on up to \$18,000 of the total actual value of a taxpayer's business personal property

For FY 2016-17, appropriates \$3,750 General Fund to the Department of Revenue for implementation of the tax policy changes.

H.B. 17-1002 (CHILD CARE EXPENSES INCOME TAX CREDIT EXTENSION): Extends an expiring refundable tax credit for child care expenses for an additional three years. However, for the tax year beginning January 1, 2017, the tax credit is only available if the revenue forecast developed by Legislative Council Staff in June 2017 projects a General Fund surplus exceeding \$2.9 million. The following table shows the effect of the tax credit on General Fund revenue and its TABOR impact.

FISCAL IMPACT OF H.B. 17-1002 (CHILD CARE EXPENSES INCOME TAX CREDIT EXTENSION)				
	FY 2016-17 ¹	FY 2017-18	FY 2018-19	FY 2019-20
General Fund Revenue	(\$2.9 million)	(\$6.1 million)	(\$6.4 million)	(\$3.4 million)

¹ FY 2016-17 impact occurs only if the June Revenue Forecast prepared by Legislative Council Staff forecasts General Fund revenue will have a surplus exceeding \$2.9 million at the end of the Fiscal Year.

The tax credit is available to taxpayers with federal adjusted gross income totaling \$25,000 or less. The tax credit is equal to 25 percent of eligible child care expenses incurred by the taxpayer up to \$500, for those with one dependent, and \$1,000 for those with two or more. This tax credit is similar but distinct from the nonrefundable child care tax credit available for individuals with federal adjusted gross income exceeding \$25,000, but not exceeding \$60,000.

H.B. 17-1027 (REMOVE FUND REPEAL & CLARIFY ORGAN DONOR PROCESS): Removes the July 1, 2018, repeal date for the Emily Maureen Ellen Keyes Organ and Tissue Donation Awareness Fund (the Fund), continuing it indefinitely, and renames the fund the Emily Keyes - John W. Buckner Organ and Tissue Donation Awareness Fund. The bill clarifies that an applicant's self-designation as an organ and tissue donor on a driver license, identification card, or instruction permit remains in effect until revoked by the applicant, codifying that organ donation is an advance directive and a lifetime designation. Under the bill, computer reprogramming costs for the Division of Motor Vehicles (DMV) may be paid from the fund. Finally, the bill requires the Donor Alliance, Inc., to submit an annual report to the Department of Revenue (DOR) detailing the amounts and specific uses of all funds it receives by October 1 of each year, which the DOR must include as part of its SMART Government Act hearing. In FY 2017-18, appropriates \$33,750 cash funds from the Fund.

H.B. 17-1120 (ALCOHOLIC BEVERAGE LICENSE HIGHER EDUCATION CAMPUS): Creates a classification of liquor license for campus liquor complexes. An institution of higher education, or a person who contracts with an institution to provide food services, that holds a hotel-restaurant license to serve alcohol beverages for on-premises consumption (licensee) may be designated as a campus liquor complex at the time of initial licensure or license renewal. The licensee must designate a principal licensed premises and additional related facilities. Defines a related facility as an area approved by licensing authorities that is on the campus of a licensed institution of higher education and owned or controlled by the institution. In FY 2017-18, appropriates \$22,150 cash funds from the Liquor Enforcement Division and State Licensing Authority Cash Fund to the Department of Revenue.

H.B. 17-1162 (OUTSTANDING JUDGEMENTS & DRIVER'S LICENSES): Changes the penalty for driving with a license that is restricted by an outstanding judgment from an unclassified misdemeanor, with a maximum penalty of six months of imprisonment and a fine of \$500, to a class A traffic infraction, punishable by an assessment of three points to a violator's driver license. Municipal courts are able to enforce violations for driving with an outstanding judgment, but cannot waive the three-point penalty assessment against a driver license. Appropriates \$108,000 cash funds to the Department for FY 2017-18.

H.B. 17-1249 (PENALTIES FOR UNLICENSED MOTOR VEHICLE SALES): Creates a new factual basis for unlicensed motor vehicle sales; increases penalties for the existing class 3 misdemeanor offense; credits fine revenue to local law enforcement and the Department of Revenue (DOR); and allows fine revenue to be used for enforcement of unlicensed motor vehicle sales laws. Under the bill, a person or corporation must both willfully violate the law and do so while acting in an official capacity to be

charged with the unlicensed sale of a motor vehicle. For unlicensed motor vehicle sales by new and used motor vehicle dealers, wholesalers, buyers agents, wholesale motor vehicle auction dealers, and motor vehicle salespersons, the penalty is still a class 3 misdemeanor. In FY 2017-18, appropriates \$8,000 cash funds from the Auto Dealers License Fund to the Department of Revenue.

H.B. 17-1250 (RENEW AND EXPAND TAX CHECK-OFF BENEFIT FOR WILDLIFE): Extends and modifies the Nongame Wildlife voluntary contribution (income tax checkoff) program. Renames the checkoff program as the Colorado Nongame Conservation and Wildlife Restoration voluntary contribution and establishes the Colorado Nongame Conservation and Wildlife Restoration Cash Fund Authority that is overseen by a board of directors. The bill also creates the Nongame Conservation and Wildlife Restoration Cash Fund. Money in the fund is used by the Colorado Division of Parks and Wildlife to support a variety of activities that aid nongame and endangered species work. In addition, a percentage of the checkoff revenue must be given in the form of grants for wildlife rehabilitation in Colorado. In FY 2017-18, appropriates \$2,200 cash funds from the Nongame Conservation and Wildlife Restoration Cash Fund to the Department of Revenue.

H.B. 17-1367 (AUTHORIZE MARIJUANA CLINICAL RESEARCH): Creates two research licenses in the Medical Marijuana Code to be issued by the Marijuana Enforcement Division and local licensing authorities. The marijuana research and development cultivation license allows a person to grow, cultivate, possess, and transfer marijuana by sale or donation, for limited research purposes. A marijuana research and development license allows a person to possess marijuana for limited research purposes. If the research will be conducted with a public institution or with public money, the Scientific Advisory Council in the Colorado Department of Public Health and Environment is required to assess the project based on criteria outlined in the bill. If the council finds the project does not meet the criteria, the application will be denied. If the research will not be conducted with a public institution or with public money, the Marijuana Enforcement Division will assess the project. In FY 2017-18, appropriates \$226,671 cash funds from the Marijuana Cash Fund to the Department of Revenue, of which \$95,050 is reappropriated to the Department of Law.

2018 SESSION BILLS

S.B. 18-036 (RELOCATE TITLE 24 TOBACCO SALES MINORS TO TITLE 44): Relocates statutes concerning regulation of tobacco sales to minors from Title 24 to the newly created Title 44 of the Colorado Revised Statutes and makes minor technical changes. In FY 2018-19, appropriates \$6,730 cash funds, including \$5,402 from the Liquor Enforcement Division and State Licensing Authority Cash Fund and \$1,328 from the Tobacco Education Programs Fund, to the Department of Revenue, of which \$4,630 is reappropriated to the Governor's Office of Information Technology.

S.B. 18-108 (ELIGIBILITY COLORADO ROAD AND COMMUNITY SAFETY ACT): The Colorado Road and Community Safety Act (S.B. 13-251) authorizes issuance of a driver license, identification card, or instruction permit, valid for three years, to an individual who is either temporarily lawfully present in the U.S. or a Colorado resident who is not a U.S. citizen and does not have permanent residency status. The bill clarifies that S.B. 13-251 documents may be renewed or reissued in accordance with the process used for standard documents without the individual having to resubmit the initial requisite documentation if the individual provides a previously issued S.B. 13-251

document and proof of current Colorado residency. The bill also allows an applicant to provide his or her social security number in lieu of an individual taxpayer identification number. In FY 2018-19, appropriates \$108,992 cash funds from the Licensing Services Cash Fund and 1.2 FTE to the Department of Revenue.

S.B. 18-233 (ELECTIONS CLEAN-UP): Makes technical modifications to various provisions of the Uniform Election Code of 1992. In FY 2018-19, appropriates \$63,000 reappropriated funds received from the Department of State to the Department of Revenue. For additional information, see the “Recent Legislation” section at the end of Part III for the Department of State.

S.B. 18-243 (RETAIL SALES ALCOHOL BEVERAGES): Effective January 1, 2019, the limitation on the maximum alcohol content of fermented malt beverages, also referred to as “3.2% beer”, is eliminated, thereby allowing grocery stores, convenience stores, and others licensed to sell fermented malt beverages containing more than 3.2 percent alcohol. Modifies laws governing the retail sale of fermented malt beverages. In FY 2018-19, appropriates \$91,092 cash funds from the Liquor Enforcement Division and State Licensing Authority Cash Fund and 1.0 FTE to the Department of Revenue, of which \$10,656 is reappropriated to the Department of Law.

S.B. 18-253 (CSTARS ACCOUNT TRANSFER TO DRIVES ACCOUNT EFFECTIVE): Establishes a uniform date of July 1, 2019, to transition the Department of Revenue’s CSTARS account to the new DRIVES Vehicle Services account. The bill also delays corresponding statutory repeal dates for one year.

S.B. 18-259 (LOCAL GOVERNMENT RETAIL MARIJUANA TAXES): Makes the following changes to marijuana taxation in Colorado:

- allows a county to continue collecting excise taxes for three years if a marijuana cultivation facility is annexed into a municipality. If this occurs, the municipality is unable to levy its own excise tax until the county’s authority to levy an excise tax expires;
- allows counties to use either the wholesale price or the calculated wholesale price to determine excise taxes;
- removes the authority for metropolitan districts to collect a sales tax on retail marijuana; and
- clarifies that the state excise tax is collected when unprocessed marijuana is transferred between marijuana cultivation facilities.

In FY 2018-19, appropriates \$15,840 General Fund to the Department of Revenue.

S.B. 18-271 (IMPROVE FUNDING FOR MARIJUANA RESEARCH): Allows a marijuana research and development licensee or a marijuana research and development cultivation licensee to share premises with a commonly owned medical marijuana infused products manufacturer or a retail marijuana product manufacturers under a co-location permit. House Bill 18-1322 (Long Bill) transferred \$3.0 million from the Marijuana Tax Cash Fund to the health research subaccount of the Medical Marijuana Program Cash Fund. This bill continues the subaccount from its current repeal date of July 1, 2019, to July 1, 2023, and authorizes the Department of Public Health and Environment (CDPHE) to use up to \$100,000 from the subaccount for administration of the medical marijuana research grant program. In FY 2018-19, appropriates \$10,656 cash funds from the Marijuana Cash Fund to the Department of Revenue.

H.B. 18-1025 (RELOCATE TITLE 12 LIQUOR LAWS TO TITLE 44): Relocates the statutes regulating alcohol beverages from Title 12 to a newly created Title 44 of the Colorado Revised Statutes and makes minor technical changes. In FY 2018-19, appropriates \$3,091 cash funds from the Liquor Enforcement Division and State Licensing Authority Cash Fund to the Department of Revenue.

H.B. 18-1042 (PRIVATE INTERSTATE COMMERCIAL VEHICLES): Allows private parties to perform expedited vehicle registrations for commercial trucks. Requires the Department of Revenue (DOR) to promulgate rules in order to allow a private provider to perform expedited vehicle registration for Class A commercial vehicles. The provider may retain a service fee, but will collect and remit the registration taxes and fees to the department.

Private providers of expedited Class A vehicle registrations must:

- be approved by DOR;
- utilize a department-approved software that will calculate taxes and fees and be updated regularly to account for any rate changes;
- file evidence of a surety bond or an alternative to a surety bond; and
- provide for reimbursement of any damages caused to the state, local governments, or owners of Class A vehicles through its acts or omissions.

DOR is required to ensure that the expedited registration program:

- operates efficiently;
- provides additional services or increases the speed or quality of services at an overall cost savings to the state; and
- complies with state law.

DOR may deny, suspend, or revoke approval of a private provider who violates a contract, makes a material misstatement, fails to comply with state law or rules, or fails to provide expedited service. DOR may also accept financial assistance from a private party to implement the expedited registration program to the extent permitted, credited to the Colorado Driver License, Record, Identification and Vehicle Enterprise Solution (DRIVES) Vehicle Services Account.

In FY 2018-19, includes a net appropriation of \$20,865 General Fund and includes a net decrease of 0.3 FTE to the Department of Revenue, of which \$16,016 is reappropriated to the Governor's Office of Information Technology.

H.B. 18-1060 (INCOME TAX DEDUCTION FOR MILITARY RETIREMENT BENEFITS): Allows an income tax deduction for military retirement benefits received by individuals under age 55 for tax years 2019 through 2023, including up to \$4,500 in 2019, \$7,500 in 2020, \$10,000 in 2021, and \$15,000 in 2022 and 2023.

H.B. 18-1167 (SUPPLEMENTAL BILL): Modifies FY 2017-18 appropriations to the Department.

H.B. 18-1185 (MARKET SOURCING FOR BUSINESS INCOME TAX APPORTIONMENT): Changes the apportionment method for corporations that do business in multiple states. Prior to the bill, income from the sale of services and intangible property was apportioned based on where the income-

producing activity was performed. The bill changes the sourcing rules so that the income is apportioned based on where the income-producing activity is used or delivered.

H.B. 18-1208 (EXPAND CHILD CARE EXPENSES INCOME TAX CREDIT): Beginning in tax year 2019, expands the state income tax credit for child care expenses for taxpayers with adjusted gross income (AGI) of \$60,000 or less who claim a child care expenses credit on their federal income tax return, equal to 50.0 percent of the federal credit. Prior to the bill, taxpayers with AGI of \$25,000 or less were eligible for 50.0 percent of the federal credit, taxpayers with AGI of \$25,001 to \$35,000 were eligible for 30.0 percent of the federal credit, and taxpayers with AGI of \$35,001 to \$60,000 were eligible for 10.0 percent of the federal credit.

H.B. 18-1244 (HONOR THE SERVICE OF SUBMARINE VETERANS): Creates the submarine service military license plate. The license plate is available to honorably discharged, retired, reserve, or active members of the submarine service of the U.S. Navy who submit the required forms and pay a one-time special plate fee of \$50. In FY 2018-19, appropriates \$2,960 cash funds from the License Plate Cash Fund to the Department of Revenue.

H.B. 18-1255 (CHILDHOOD CANCER AWARENESS SPECIAL LICENSE): Creates the childhood cancer awareness special license plate. This license plate is available to anyone who donates to an organization chosen by the Department of Revenue and pays a one-time special plate fee of \$50. At least once every five years, the DOR will choose an organization to which applicants must donate to qualify for this license plate. In FY 2018-19, appropriates \$8,288 cash funds from the License Plate Cash Fund to the DOR. This organization must:

- have an office in Colorado;
- have been in existence for at least one year; and
- provide financial assistance to families with a minor being treated for cancer or research foundations that provide money for pediatric cancer research.

H.B. 18-1280 (COURT APPOINTEES FOR MARIJUANA BUSINESSES): Provides specifications for court-appointed receiverships or similar situations related to a person taking possession of, operating, managing, or controlling a licensed marijuana business. Requires an individual to certify to the appointing court that he or she is not prohibited from holding a marijuana license before being appointed a receiver of a marijuana business. Once appointed, the receiver must notify the Marijuana Enforcement Division (MED) of the appointment. The MED is required to issue a temporary registration to the appointee, which may be subject to administrative action if the appointee fails to comply with state marijuana laws or regulations. In FY 2018-19, appropriates \$28,950 cash funds from the Marijuana Cash Fund to the Department of Revenue, of which \$14,918 is reappropriated to the Department of Law.

H.B. 18-1285 (REMUNERATION-EXEMPT DISABILITY PARKING PLACARD): Creates a remuneration-exempt placard that exempts individuals with qualifying disabilities from paying for meter parking. In FY 2018-19, appropriates \$9,870 General Fund to the Department of Revenue.

H.B. 18-1299 (ELECTRONIC FILING TITLE REGISTRATION MOTOR VEHICLE): Under current law, the Department of Revenue (DOR) may establish a system to allow the electronic transmission of registration, lien, and titling information for motor vehicles. To implement this

system, the bill allows the DOR to adopt rules to: maintain titling information electronically; accept electronic signatures on any documents; eliminate any notarization requirements for document signatures; allow all parties to electronically file and release lien information; and authorize third-party providers to process registration, lien, and titling information on behalf of a business entity. The bill includes an appropriation clause for FY 2018-19; however, the effective date clause in the bill establishes an effective date for the entire bill of July 1, 2019, nullifying the appropriation in FY 2018-19.

H.B. 18-1322 (LONG BILL): General appropriations act for FY 2018-19.

H.B. 18-1339 (BACKGROUND CHECKS FOR EMPLOYEES WITH ACCESS TO FEDERAL TAX INFORMATION): Requires each applicant, state employee, state contractor, or other individual who has or may have access through a state agency to federal tax information received from the federal government to submit to a fingerprint-based criminal history records check. Specifies that a state agency that shares such federal tax information with a county may authorize and require the county department applicants, employees, contractors, or other individuals to submit to a fingerprint-based criminal history records check. Requires a state agency to deny access to federal tax information received from the federal government to any individual who does not pass the fingerprint-based criminal history record check. Provides FY 2018-19 appropriations as follows:

- \$6,188 General Fund to the Governor's Office of Information Technology;
- \$36,630 General Fund to the Department of Human Services;
- \$7,425 cash funds to the Department of Labor and Employment;
- \$6,683 General Fund to the Department of Local Affairs;
- \$11,633 General Fund to the Department of Personnel;
- \$41,580 General Fund to the Department of Revenue;
- \$121,748 reappropriated funds and 0.6 FTE to the Department of Public Safety from the appropriations made to other departments above.

H.B. 18-1350 (MACHINE TOOL SALES TAX EXEMPTION FOR SCRAP METAL): Expands the definition of recovered materials under the machinery and machine tools sales and use tax exemption beginning January 1, 2019. In FY 2018-19, appropriates \$14,292 General Fund and 0.3 FTE to the Department of Revenue.

APPENDIX C

FOOTNOTES AND INFORMATION REQUESTS

UPDATE ON LONG BILL FOOTNOTES

- 102a Department of Revenue, Taxation Business Group – It is the General Assembly's intent that the Department review its existing resources dedicated to severance tax and provide the Joint Budget Committee with the information requested in the requests for information letter submitted in conjunction with the 2018 long bill.

COMMENT: The Department submitted its RFI response. The response follows as an attachment.

- 103 Department of Revenue, Division of Motor Vehicles, Driver Services, Personal Services -- The initial fiscal note estimated a total of 66,000 individuals would request an appointment for a S.B. 13-251 document. Continued operations for this program at more than one office are premised on the need to handle the initial surge of applicants. It is the Intent of the General Assembly that once the annual appointments for first-time applicants made available for individuals who are not lawfully present in the United States falls below 5,000 per year or the total first-time applicants served reaches 66,000 the Division will reduce the offices that provide the service to one location. Of the amount appropriated to Driver Services, \$1.5 million cash funds are for the Colorado Road and Community Safety Act.

COMMENT: Statement of intent and specified appropriation; no Department response required.

UPDATE ON REQUESTS FOR INFORMATION

1. Department of Revenue, Taxation Business Group -- The Department is requested to submit to the Joint Budget Committee by November 1, 2018, an assessment of the additional resources it would need to provide the General Assembly with more specific information related to severance tax and tax credits, exemptions, and deductions taken by severance tax filers for decision making purposes. Additional resources may include, but is not limited to: statutory changes, additional personnel, additional software modules, or software adjustments to GenTax.

COMMENT: The Department submitted its RFI response. The response follows as an attachment.

2. Department of Revenue, Division of Motor Vehicles, Driver Services -- The Department is requested to submit to the Joint Budget Committee by the first of every month quarter, beginning June 30, 2017, a report about the progress made on meeting the demand for services offered under S.B. 13-251, which was estimated at 66,000 individuals. For individuals served who are not lawfully present in the United States, the report should include the number of

appointments made available, the number of "no shows" for appointments, the number of appointments that resulted in no document issuance, the number of documents issued, and a justification based in data for why there is a continued need to offer services for individuals who cannot demonstrate a lawful presence in the United States at more than one location. If the number of first time applicants who receive an identification document exceeds 66,000, it is further requested the Department provide written notice to the Joint Budget Committee as soon as practical.

COMMENT: The Department has submitted quarterly reports, including the most recent required quarterly report on October 1st.



Executive Summary

<i>Summary of Additional Resources Required to Provide Severance Tax Filing Data¹</i>			
<i>Category of Expenditure</i>	<i>FY 1*</i>	<i>FY 2</i>	<i>FY 3 and Ongoing</i>
Vendor Development and Testing Costs (Fast for GenTax Programing)	\$73,750	\$73,750	\$-
Mineral Audit	\$43,321	\$86,641	\$86,641
Office of Research and Analysis	\$19,200	\$3,200	\$320
System Support Office (Personal Services Dollars to Backfill Testing and Project Management Functions)	\$51,215	\$51,215	\$-
Total	\$187,486	\$214,806	\$86,961

*Fiscal Year Ending During the Impacted Tax Filing Year

Note: For a more detailed explanation of costs and methodologies, review the “Additional Resources Required to Implement” section of the report.

As a result of this request for information, the Colorado Department of Revenue (CDOR) convened a working group of audit, taxpayer service, business analyst, reporting, and policy staff to discuss current limitations and identify areas of opportunity to modify severance tax administration to improve the systematic intake and output of taxpayer data. CDOR made several assumptions about what constitutes “more specific information” about the data in question that are outlined in the “Problem Statement” section of the report. Potential solutions developed by the team are grouped by solutions that would be facilitated by statutory changes or by solutions that could be addressed through return and/or system updates alone.

Colorado’s severance tax was enacted in 1977 and portions of statute have not been substantially updated or revisited since the 1980’s and 90’s. This document summarizes

¹ For purposes of estimating costs to respond to this RFI, the Department assumes that the implementation timeline for statutory and system changes would begin January 1 of the impacted tax filing year. For example, if the changes are effective for the tax year beginning January 1, 2019, the project would be initiated, planned and developed beginning January 1, 2019 (or as soon as possible thereafter) in order to ensure that the returns, data sharing processes, and filing and billing systems are fully updated by January 1, 2020 when taxpayers may begin filing for the 2019 tax year.



several statutory changes the Department recommends including but not limited to: mandate e-filing; mandate centralized collection and sharing of NERF data electronically with CDOR, CDOLA, and the counties; exempt severance tax from refund interest statutes in certain cases; and add an option for the Department to assess a penalty for failure to report and file correctly to ensure correct information is collected.

In addition to providing the General Assembly with more reporting capacity, the adoption and funding of the solutions suggested in this report simplify severance tax filing for taxpayers and reduce manual work and errors for CDOR, improving the integrity and accountability of the tax system. Historically, conflicting and higher impact demands on CDOR development resources have superseded opportunities to automate the severance tax or to drive the systematic collection of data for reporting of the tax. While modernizing these processes would result in more efficient administration of the tax, the cost of the modernization has exceeded the benefit given the Department's budget allocations in the past.

For general information, currently there are no cases waiting in the Department's conferee section to be resolved as a result of BP Am. v. Colo. Dept. of Revenue decision. There is projected to be \$16 M of refunds issued for returns that are currently under audit. These refunds are related to the BP Am. v. Colo. Dept. of Revenue decision ruling. These refunds are expected to be processed and paid by the end of this fiscal year, June 30, 2019. Additionally, there is anticipation that amended returns may be filed for the eligible time period of tax year 2014 through 2016 for an estimated total of up to \$29 M².

Without an electronic filing mandate, the costs to collect and prepare the data for reporting manually by staff increase exponentially above what is presented in this RFI response. The adoption of any single solution alone is not enough to address the request for additional reporting for the general assembly and the suggestions provided should be considered as a package.³

² This estimate is based on a representative group of the largest taxpayers and the limited information that is known at this time. This total is only an estimate, as the decision to file amended returns is left to the business. The Department of Revenue has no advance notice of taxpayer intent until such time as the business files tax information with the Department.

³ Any changes made as a result of suggestions from this RFI will only be effective going forward; what data the Department does have available for back years and current years is limited and can only be retrieved through manual information gathering, which means copying information from images of paper forms (if provided and available) by hand into a spreadsheet or other data collection tool.

Also, reporting data from tax filings includes an inherent lag. For example, if taxpayer requirements were changed effective for the 2019 filing period (which is due beginning April 15, 2020), the earliest that reporting could be completed would be January 2021 to include fiscal year taxpayers and extension filers in a "full tax year". In addition, reporting on return-based information does not predict the potentially substantial revenue adjustments that happen as a result of late filings, amendments, or audits. Filing data should only be used to inform decisions about long-term trends and patterns and cannot reasonably be used to forecast short term effects.



Introduction

1.1 Problem Statement:

“The Department is requested to submit to the Joint Budget Committee (JBC) by November 1, 2018, an assessment of the additional resources it would need to provide the General Assembly with more specific information related to severance tax and tax credits, exemptions, and deductions taken by severance tax filers for decision making purposes. Additional resources may include, but is not limited to: statutory changes, additional personnel, additional software modules, or software adjustments to GenTax.”

In order to complete the request for information (RFI), the Department makes the following assumptions:

- The JBC believes that historical data on the use of specific credits, exemptions, and deductions allowed under statute against severance tax will allow for more accurate forecasts of severance tax revenues in the future.
- The “more specific” information includes a breakout of credit, exemption, and deduction amounts claimed that is consistent and comparable to the information that is collected by property tax administrators in the netback expense (NERF) forms.
- Collecting and reporting data systematically is facilitated by receiving data electronically.
- Without an electronic filing mandate, the costs to collect and prepare the data for reporting manually by staff increase exponentially above what is presented in this RFI response.

CDOR is currently unable to provide reporting on the specific information requested related to severance. Prior to 2008, all CDOR administered taxes were housed by a patchwork of systems in a mainframe environment developed decades before. The legacy system presented a number of limitations on data, processing, and information collection that set a foundation of manual processing and little integration. The severance taxes were among the first taxes that were migrated to the new system in 2008. As one of the first taxes implemented in the system, the priorities for severance tax migration were (1) proof-of-concept to transfer relatively smaller taxes to a more integrated new system and (2) maintaining existing processes with minimal business disruption for taxpayers and for Department staff. The severance tax roll out was not designed include significant enhancements or changes. Since the initial roll out and over the past ten years, other conflicting and higher impact demands on CDOR resources have superseded many opportunities to improve the administration of the severance tax or to increase the systematic collection and reporting of the tax data.



The data desired by the GA is return data. This data can be used to inform some policy decisions about the severance tax landscape, but even if made available, limitations on the usefulness of the data should be considered and understood by decision makers. Returns are reports that rely on voluntary compliance and taxpayer knowledge that may be audited and corrected by the Department. Not every return received is audited. Return information can be changed at any time (within reason and within a statute of limitations) through amendment, review adjustment, audit findings, administrative hearing settlement, or court process. While return data (which is specified by tax year/filing period) largely tracks collection data (which is specified by revenue period) it will not match exactly and cannot be easily linked to collection data because substantial revenue adjustments can happen as a result of late filings, amendments, or audits.

Tax policy--such as providing deductions or credits--has an effect on severance tax collections, however larger economic and political forces on oil and gas prices such as global supply and demand, other federal and state exploration and production regulations, and industry profitability and technology contribute more to drive business decisions and ultimately production and tax revenue from producers than tax policy directly. These forces, as well as the results of any potential future litigation create variations from forecasts that are outside of the control of the state and the impacts of these forces are not mitigated or predicted by additional data reported on returns.

The majority of the suggestions included in the report are focused on changes to oil and gas reporting specifically, however each of the changes recommended are also applicable to other severance taxes (metallic minerals, coal, molybdenum, etc.) Much of the statute governing the administration of severance taxes applies to all severance tax types so the associated costs for updates also consider severance tax as an inclusive package. The costs to make changes could be reduced marginally if the suggested statutory and administrative changes were adapted to fully separate the administration of oil and gas severance from all other severance taxes; however the reduction in development costs would be marginal and would decrease consistency in administration between the various types of severance tax.

Finally, the members of the working group discussed ideas outside of the scope of reporting that could have a stabilizing impact on the state revenue stream generated by severance taxes to improve the General Assembly's ability to budget and expend severance tax revenues.⁴ Ultimately, these ideas were not addressed in detail in the RFI response due to

⁴ These ideas were to (1) change the way distributions are allocated from the severance tax funds in the state budget based on collections from the prior fiscal year rather than the current fiscal year, (2) raise the tax rates, (3) change the point of taxation to producers only rather than require a withholding and liability sharing with other taxpayers by taxing the production directly rather than the gross income from the production, (4) remove, reduce, or modify the ad valorem credit since taxpayers receive reductions and credits against the ad valorem tax based on several netback expense (NERF) deductions, and (5) remove or reduce the threshold for consideration of "stripper" well exemption status.



the fact that they were more significant tax policy changes or budget decisions rather than collection of information and had the potential to result in net revenue increases for the state.

1.2 Statutory Construction of Severance Tax

The current statutory framework authorizing severance tax contains grey areas and does not provide statutory authority for the Department to enact or enforce administrative changes that only serve the purpose of increasing the amount of reportable data. To the extent the Department determines that additional information is required on a return for the purpose of tax administration the Department has statutory support to require that information. However, depending on the quantity, type, and scope of changes to returns and systems to accommodate the information the Department must defend and budget for the changes or forgo other maintenance and support work to pay for the development. In addition, the results of the BP Am. v. Colo. Dept. of Revenue decision mean that the Department has little room to make any regulatory adjustments regarding deductions without supporting legislative changes to the underlying statute. In order to support the request for additional reporting and return information from taxpayers, the Department recommends several statutory changes in the “Statutory Solutions” section of this report.

1.3 Return and System Limitations on Data Collection

The general assembly request pertains to “more specific information related to severance tax and tax credits, exemptions, and deductions taken by severance filers.” Information regarding deductions is not reported on the Form DR 0021 and associated Form DR 0021D which are the minimum required components to administer oil and gas severance tax return processing. Deduction is reported, if at all, on Form DR 0021PD, a form that was not designed to reflect the degree of detail contemplated by the RFI, that CDOR is not able to require taxpayers to submit, and, if taxpayers do submit, CDOR does not have the current system capacity to data capture and store the information.

The decisions regarding the collection and capture of this information at any level in the past have been largely driven by resource constraints (costs to key or data capture information from paper, costs to store data in the Department’s system of record, etc.) and the relatively small populations of impacted filers compared to the historic audit coverage of the industry, which has in some years been as much as 75% of the collected amount and covers the majority of wells in the state. Additional data that is captured and stored systematically could in some cases improve the ease of administration of the tax, however due to costs for system changes as well as the requirement of taxpayers to “keep and preserve books, accounts, and records as may be necessary to determine the amount of liability”, capturing additional data on the return has remained a “nice to have” rather than a “necessary” consideration. Additional reporting requirements from the taxpayer also increase taxpayer



costs of compliance to report and file correctly and requiring redundant information from CDOR that the taxpayer files and reports elsewhere places additional burden on the industry and costs on the businesses. In order to support the request for additional reporting and return information from taxpayers, the Department recommends funding several administrative and system changes in the “Return and System Solutions” section of this report.

Potential Solutions and Resources Needed

Statutory Solutions

This section outlines CDOR’s recommendations for statutory changes that would enable more current, accurate and accessible data for decision makers, a more streamlined severance tax filing experience, as well as more automated administration of the severance tax.

Suggestions and Rationale for Statutory Changes	
<i>Suggested Section in C.R.S.</i>	<i>Description of change and rationale for the suggestion</i>
#1 39-7-101(4)	Mandate sharing of NERF data electronically from the counties with CDOR to (a) centralize the information and (b) help improve the correct assessment of tax and (c) streamline audit efficiency. Or consider centralized reporting from all the producers to CDOLA or DOR into a database system all of the assessors could access (and then share from CDOLA to CDOR if necessary.) This suggestion represents an opportunity (like a state managed GIS for sales tax boundaries) to invest in a centralized data repository that could be used by state and local agencies, as well as a repository for more complete deduction information.
#2 39-21-110	The fact that the original due date of a filing rather than the timely filing drives the payment of refund interest could result in variations in collection that are unexpected and difficult to budget for. CDOR has 90 days from the return due date to process returns prior to having to pay refund interest. This is a very large task in and of itself. Additionally, there is no clear guidance on how to treat taxpayers who file late (after the due date) or upon extension. The Income Tax refund interest statute is subject to different rules, one of which is that the state does not have to pay refund interest if a return has been selected for review and one which begins any interest calculations at the date of the receipt of the



Suggestions and Rationale for Statutory Changes	
<i>Suggested Section in C.R.S.</i>	<i>Description of change and rationale for the suggestion</i>
	filing or return rather than the original due date of the return. Some severance tax returns are in excess of 200+ pages and often are more lengthy reviews. A change to this statute would result in less chance for variations in collections that are a result of interest being paid on late or amended filings.
#3 39-29-102(3)(a)	<ul style="list-style-type: none"> Clarify in statute the General Assembly's intent, scope, and definition of deductions allowed against "gross income". Consider statutory changes regarding "related parties" and provide specific direction on what can be allowed to be considered an arm's length transaction vs. a related party transaction, statute allows CDOR to define in rule however the Department had to modify the regulation as a result of the court decision. Statutory clarification defining related parties could allow the Department more direction to prevent related party pricing to avoid tax.
#4 39-29-103(2) AND 39-29-105(2)	Eliminate the option to use cash or accrual methods to determine the credit allowed and just follow the federal rule for most taxes of cash accounting for purposes of establishing the credit. This change would avoid taxpayers who use accrual accounting getting the value of the credit before the payment that generates the credit is actually made in some cases. This nuance in filing, reporting, and qualifying for the credit complicates filing and can result in audit adjustments that make predicting the revenue flow of severance taxes challenging.
#5 39-29-111	<ul style="list-style-type: none"> Codify the requirement that producers or first purchasers must file their withholding statements with the Department in addition to sending copies of withholding statements to the interest holder. This reporting requirement provides a check and balance system for refund claims by interest holders and reinforces the Department with a systematic tool rather than selection for audit to ensure that producers are withholding correctly. Consider conforming producer withholding requirements to similar standards as wage withholding requirements to include a penalty for failure to correct withholding documents and provide corrected documents to taxpayers.



Suggestions and Rationale for Statutory Changes	
<i>Suggested Section in C.R.S.</i>	<i>Description of change and rationale for the suggestion</i>
	<ul style="list-style-type: none"> Consider moving the requirement to complete 4th quarter withholding and annual reconciliation earlier than March 1 to improve the filing timelines and correct information. If taxpayers do not receive withholding statements until the first or second week of March and annual filing is due by April 15 there is little time to file correctly. Additionally, if there are delays in producers providing withholding reconciliations to CDOR the Department is unable to verify withholding for interest holders who file earlier. Producers or first purchasers who have employees are accustomed to providing employment withholding statements and reconciliations to the IRS, SSA and the state by January 31 for the prior year.
#6 39-29-112(1)	Mandate electronic filing of severance tax returns with CDOR (and fund and complete the subsequent development to create an electronic filing method). If all of the requisite data for reporting is provided by taxpayers in an electronic format directly to the Department, the significant reporting barrier of manual data entry costs and errors is removed.
#7 39-29-112(7)	If the general assembly needs complete information related to severance tax in order to make decisions, statute currently does not include reporting from individuals with less than \$250 withheld from all unit operators and for whom the \$250 minimum meets or exceeds the tax obligation. As a result, there are a large number of rent/royalty taxpayers who never file an actual return. When this exclusion from filing is combined with the previous bullet, it is likely that a large number of interest holders are not only not filing, and if they all submitted returns for prior periods be eligible for refunds of over withholding that is not currently captured or anticipated. To the extent that the producer or first purchaser submits DR 0021Ws to the Department, the Department has this information, just from a different source. If the submission and collection of data from DR 0021W's provided by producers or first purchasers were addressed (as in suggestion #5 above) this exclusion would not necessarily need changed.



Suggestions and Rationale for Statutory Changes	
<i>Suggested Section in C.R.S.</i>	<i>Description of change and rationale for the suggestion</i>
#8 39-29-115(2)	Modify or add a penalty provision for failure to report to CDOR correctly. Even minor changes to tax reporting are adopted with varying rates of success and the suggested changes are substantial. Most taxpayers will voluntarily comply with the new reporting requirements however CDOR has no recourse to compel any serious standouts to report correctly on the filing. Consider borrowing language from 39-26-118(2) re: failure to “correctly account” for the tax. Include a requirement that if errors are discovered during an audit, the taxpayer is required to file an amended return to correct the errors. Taxpayers have similar requirements for federal severance audits.
<i>For consideration, a simplification of the tax structure overall in order to create the easiest structure for filing and for reporting on information:</i>	
#9 39-29-102(3) AND 39-29-111	Significant changes to reporting and liability structure of the tax so that the incidence of the tax is entirely on the producer and not interest or royalty holders at all. The withholding scheme convolutes where the tax liability ultimately rests, complicates reporting and filing significantly, and benefits the producers over the royalty holders by reducing overall the tax that is due on severance throughout the state at the current rates. Since a change like this has the potential to implicate TABOR by resulting in a revenue increase, this type of change is not included in the resource costs of this analysis. Careful review and potentially an adjustment and decrease in rates to account for an increase in taxable gross income could mitigate overall revenue increases, however that analysis has not been conducted by CDOR at this time.



Return and System Solutions

Suggestions and Rationale for Return and System Changes	
<i>Corresponding Statutory Updates for Support (if applicable)</i>	<i>Description of change and rationale for the suggestion</i>
See #1 & #6 in the “Statutory Solutions” section	Modify the DR 0021 and the DR 0021PD to enumerate taxpayer reporting of more of the NERF deductions that statute and the court decision allow for more granular reporting data to be collected on the filings. Require and capture (electronically) the DR 0021PD and use the data from that form to feed into the DR 0021 at an aggregate level.
See #1, #4, & #6 in the “Statutory Solutions” section	Make updates to the audit working papers (audit program functionality) in GenTax to operate more like the retail marijuana tax working papers and have a number of fields from the DR 0021 that are updated upon audit adjustments in the RETURN document in addition to the financials that post on the account for billing. If the return document is not updated by audit adjustments, reporting for accounts that have been audited and adjusted will not accurately represent credit, exemption, or deduction information as requested in the RFI.
See #5, #6, & #7 in the “Statutory Solutions” section	Make changes to the annual withholding reconciliation for OGW to behave more like the DR 1093 for wages and adjust annual reporting requirements and rules to align that process more closely with the wage withholding process. Withholding functions best in a system of checks and balances, where the withholder is compelled to correctly report withholding against filing or claims for refund from the party withheld.
See #1, #5, #6, & #7 in the “Statutory Solutions” section	The only data currently electronically captured and stored in GenTax for oil and gas severance is from the DR 0021 and the DR 0021D, and limited fields from those return forms. Expand the data stored and collected as indicated in the table above, including mapping the data to return tables and supporting tables to allow for reporting out of the system.
See #3, #5, & #6 in the “Statutory Solutions” section	<ul style="list-style-type: none"> Adding verbiage that DR 21D is required with the return and modify the form to include a column to report withholding. Require that each DR 21W should be separately listed on the DR 21D. Capture the additional withholding data and complete any



Suggestions and Rationale for Return and System Changes	
<i>Corresponding Statutory Updates for Support (if applicable)</i>	<i>Description of change and rationale for the suggestion</i>
	<p>math rule changes that should be completed as a result of the extra step to automate withholding comparisons. This way, if discrepancies occur, CDOR can identify and correct specific withholding statements. Poor tracking could cause allowance of ad valorem when no income may have been present on any given DR 21W due to limited information.</p> <ul style="list-style-type: none"> • Require the DR 21AS with any severance tax filing (when applicable.) This information helps CDOR identify parent/subsidiary entities that are required to file a combined severance return.



Additional Resources Required to Implement Suggested Solutions

Additional Vendor System Development and Testing Cost Resources:

The suggestions presented in this document require a number of changes and modifications to the severance tax returns, filing processes, and audit processes in order for CDOR to systematically collect and report the information requested as part of this RFI. The review team developed requirements and a scoping document⁵ for changes and modifications based on the suggested solutions and CDOR's software vendor Fast Enterprises provided a level of effort estimate for the vendor development costs to update the Department's GenTax system for the new return functionality and processes.

Activity	Hours/Cost
Design/Analysis	40
Development	450
Unit Testing	80
Change Management	20
Total Hours	590
Hourly Rate	\$250
Total Cost	\$147,500

Additional Staff Resources:

The workload estimates for additional staff resources in this RFI response are developed consistently with the workload methodologies that are used by CDOR to estimate workload for fiscal note purposes.

Mineral Audit

The changes suggested require the mineral audit section to make adjustments to returns on a much more detailed (well by well) basis in the system. Current audit practices involve a detailed investigation of taxpayer activity and statements; however return data is not updated upon completion of an audit. Rather, financial adjustments are made to the

⁵ The scoping document and vendor response detail can be provided, but is not included in this RFI response for brevity and readability.



“bottom line” only in order to reflect the net adjustments made to the taxpayer’s liability. To complete an overhaul of the audit working paper and increase the data points that are corrected after a taxpayer audit to reflect accurately in reporting, the mineral audit section would require some staffing changes to reflect the additional work.

The mineral audit section’s current work consists of work that is focused on audit of the state severance tax, in addition to staff that performs joint audit work with the federal government using federal funding on federal severance. The work of each group is different, and both are currently managed by a single level of management. In order to develop the updated audit program and protocols to track and report the information at the level of detail required to report credits and exemptions, the internal controls and reviews for the additional level of complexity exceeds the capacity of the existing team and management structure. In order to implement the next level of reporting, the mineral audit section has developed the following staffing recommendations:

- Add one new Admin Assistant II position to assist with the data entry and input of detailed, well-by-well adjustments into the reporting database to ensure correct information about credits and deductions and to research reporting question from the Office of Research and Analysis
- Upgrade a current Auditor III position that acts as a team lead for the state mineral audit program to an Auditor IV to allow for additional management responsibilities of the new admin position and for the additional job responsibilities of developing the enhancements to the state audit program.
- Upgrade a current Auditor III position that acts as a team lead for the federal severance program to an Auditor IV to shift and adjust the supervisory workload of the remainder of section and to balance the supervisory responsibilities of each group’s work.
- Upgrade the existing mineral audit section manager position from an Auditor IV level position to an Auditor V position to accommodate appropriate levels of supervision because of the necessary upgrades of the other two positions.

Mineral Audit Staffing Adjustment Plan

Description	Position Number	Current Classification	New Classification	Current per month	New per month	Fiscal Year '19 Impact
Reclassification	279	AUDITOR IV	AUDITOR V	\$9,090	\$9,999	\$10,908
Reclassification	1989	AUDITOR III	AUDITOR IV	\$7,307	\$8,038	\$8,768
Reclassification	153	AUDITOR III	AUDITOR IV	\$6,352	\$7,082	\$8,760
New Position	N/A	N/A	ADMIN ASSISTANT II	\$0	\$2,839	\$34,068
			Total Salary	\$22,749	\$27,958	\$62,504



Mineral Audit Staffing Adjustment Plan

PERA	10.40%	\$2,366	\$2,908	\$6,500
AED	5.00%	\$1,137	\$1,398	\$3,125
SAED	5.00%	\$1,137	\$1,398	\$3,125
Medicare	1.45%	\$330	\$405	\$906
STD	0.19%	\$43	\$53	\$119
Health-Life-Dental	\$780	\$2,340	\$3,120	\$9,360
Total Benefits		\$7,354	\$9,282	\$23,136
Operating for New Position		\$0	\$83	\$1,000

Office of Research and Analysis

In order to provide reporting support on the new data that would be collected by CDOR, the Office of Research and Analysis (ORA) has estimated the following hours of new workload based upon assumptions for level of effort using historical tracking of staff time for new reporting. All ORA expenditure costs are based on a Statistical Analyst III salary (\$40/hr). ORA assumes that an annual report is adequate for purposes of providing additional information to the General Assembly, however if more frequent or ad hoc reporting is anticipated, ongoing costs increase proportionally for report preparation and analysis.

Initial Fiscal Year (Fiscal year ending during the first tax year affected):

- \$19,200 - 480 hours for setting up the data mapping tickets and testing the data mapping and configuration of the database:
 - 40 hours for planning, meetings, and initial set up of tickets and mapping structure
 - 120 hours (8 hours per field for approximately 15 fields) for testing the mapping of fields on DR 0021PD
 - 80 hours (8 hours per field for approximately 10 fields) for testing the mapping of newly captured and added fields on DR 0021D
 - 40 hours (8 hours per field for approximately 5 fields) for testing the mapping of new aggregate fields on DR 0021
 - 200 hours (8 hours per field for approximately 25 fields) for miscellaneous fields on other severance forms that may need to be mapped (DR 0021S, DR 00020, DR 0020A, DR 0022, DR 0456, DR 0461, DR 0020E).

Second Fiscal Year:

- \$3,200 - 80 hours to initially set up the reporting methodology and produce the first report

Ongoing:



- \$320 - 8 hours per year to produce annual reports

Systems Support Office - Business Analyst and Business Testing Resources

The changes recommended in the RFI to generate new data for reporting will require GenTax programming (noted above) to be tested by Department personnel in several divisions to ensure the system is functioning properly. Every change to GenTax requires some amount of end user acceptance testing to ensure that the changes are made correctly and that all transactions and account activities post correctly. The changes recommended in the RFI are one-time changes and there is no ongoing cost for testing. Any future testing needs would be a result of other changes to severance tax law.

The Systems Support Office estimated both business analyst workload and end-user workload for testing and documentation as a result of changes based on the requirements developed in the scoping document.

Business Analyst workload typically includes meeting with the end-users and developers, developing formal scope of work, analyzing proposed changes for integration needs with existing system modules, planning/developing/creating test scenarios and packages, managing user acceptance testing, creating change log documentation, and creating end-user training materials. End-User testing workload typically includes meeting with the business analysts and developers to establish details for processes and scope of work, testing and retesting scenarios and documenting results, opening tickets for issues discovered during testing, affirming successful end-user testing, and receiving training on the system updates.

For fiscal note purposes, the Department typically categorizes end-user and business analyst resource hours in corresponding personal services dollars in order to hire temporary staff to back-fill the more standardized duties of existing staff when they are assigned legislative project implementations.

Total Business Analyst Hours	2,139	Total End-User Testing Hours	1,996	Total Hours	4,135
Business Analyst Temporary Rate (\$25.50/hour)	\$54,545	End-User Temporary Rate (\$23.99/hour)	\$47,884	Total Personal Services Dollars	\$102,429

APPENDIX D

DEPARTMENT ANNUAL PERFORMANCE REPORT

Pursuant to Section 2-7-205 (1)(a)(I), C.R.S., by November 1 of each year, the Office of State Planning and Budgeting is required to publish an **Annual Performance Report** for the *previous fiscal year* for the Department of Revenue. This report is to include a summary of the department's performance plan and most recent performance evaluation for the designated fiscal year. In addition, pursuant to Section 2-7-204 (3)(a)(I), C.R.S., the department is required to develop a **Performance Plan** and submit the plan for the *current fiscal year* to the Joint Budget Committee and appropriate Joint Committee of Reference by July 1 of each year.

For consideration by the Joint Budget Committee in prioritizing the department's FY 2019-20 budget request, the FY 2017-18 Annual Performance Report dated October 2018 and the FY 2018-19 Performance Plan dated can be found at the following link:

<https://www.colorado.gov/pacific/performancemanagement/departments-performance-plans>